

**THE ANALYSIS AND MODEL OF IMPLEMENTATION CORPORATE  
SOCIAL RESPONSIBILITY BASED ON CARROLL'S PYRAMID**

**(A Case Study on PT. Perusahaan Gas Negara (Persero) Tbk)**

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**MINOR THESIS**

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**ABSTRACT****THE ANALYSIS AND MODEL OF IMPLEMENTATION CORPORATE  
SOCIAL RESPONSIBILITY BASED ON CARROLL'S PYRAMID  
(A Case Study on PT. Perusahaan Gas Negara (Persero) Tbk)****By: Aruma Resdha Rintami****Supervisor: Prof. Eko Ganis Sukoharsono, SE, Mcom-Hons, CSRS, Ph.D**

PT. Perusahaan Gas Negara (Persero), Tbk. is the largest national company in the natural gas transmission and distribution segment. Most of the main goal of a company is to gain maximum profit, however, it is not always in line with the society and environmental requirements that can cause damage to society and surrounding environment. Therefore, this research aims to analyze the implementation of corporate social responsibility at PT. Perusahaan Gas Negara (PERSERO), Tbk. in 2016 and 2017 based on Carroll's Pyramid. This research is a qualitative research and conducted using case study method and literature study. The result of this research is the implementation of Corporate Social Responsibility at PT. Perusahaan Gas Negara (PERSERO), Tbk. fulfilled the concept of Carroll's pyramid in economic responsibility in gaining profit as their foundation of the company activities. In terms of legal responsibility, PT. PGN carried out the CSR activities based on the applicable law, therefore, it is free from the penalties. Moreover, in terms of ethical responsibility, PT. PGN conducted the CSR activities based on the unwritten norms, regulation and as expected by the stakeholder. The top level of the pyramid is philanthropic responsibility, CSR activities of PT. PGN implemented its' responsibility to the stakeholder without expecting rewards.

**Keywords:** *Corporate Social Responsibility, Carroll's Pyramid, Profit, Social, Environment*

**ABSTRAK**

**ANALISIS DAN MODEL PENERAPAN TANGGUNG JAWAB SOSIAL  
PERUSAHAAN BERDASARKAN PIRAMIDA CARROLL  
(Studi Kasus Pada PT. Perusahaan Gas Negara (Persero) Tbk)**

**By: Aruma Resdha Rintami**

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PT. Perusahaan Gas Negara (Persero), Tbk. adalah perusahaan nasional terbesar di segmen transmisi dan distribusi gas bumi. Sebagian besar tujuan utama dari sebuah perusahaan adalah untuk mendapatkan keuntungan maksimum, namun tidak selalu sejalan dengan kebutuhan masyarakat dan lingkungan yang dapat menyebabkan kerusakan pada masyarakat dan lingkungan sekitarnya. Oleh karena itu, penelitian ini bertujuan untuk menganalisis pelaksanaan tanggung jawab sosial perusahaan pada PT. Perusahaan Gas Negara (PERSERO), Tbk. pada 2016 dan 2017 berdasarkan Piramida Carroll. Penelitian ini merupakan penelitian kualitatif dan dilakukan dengan metode studi kasus dan studi pustaka. Hasil dari penelitian ini adalah implementasi Corporate Social Responsibility di PT. Perusahaan Gas Negara (PERSERO), Tbk. memenuhi konsep piramida Carroll dalam hal tanggung jawab ekonomi dengan memperoleh laba sebagai landasan kegiatan perusahaan. Dalam hal tanggung jawab hukum, PT. PGN telah melaksanakan kegiatan CSR berdasarkan hukum yang berlaku, oleh karena itu, bebas dari hukuman. Selain itu, dalam hal tanggung jawab etis, PT. PGN telah melakukan kegiatan CSR berdasarkan norma-norma tidak tertulis dan apa yang diharapkan oleh *stakeholder*. Tingkat tertinggi piramida adalah tanggung jawab filantropis, pada tingkatan ini PGN mengimplentasikan tanggung jawabnya kepada *stakeholder* tanpa mengharapkan imbalan.

**Keywords:** Tanggung Jawab Social Perusahaan, Piramida Carroll, Pendapatan, Sosial, Lingkungan

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(A Case Study on PT. Perusahaan Gas Negara (Persero) Tbk)”**



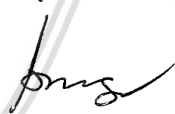
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This is to certify that to the best of my knowledge, the content of this thesis is my own work. No part of this thesis has been published or submitted for publication. I certify that the intellectual content of this thesis is the product of my own work and that all the assistance received in preparing this thesis and sources have been acknowledged. I declare that this is a true copy of my thesis, including any final revision, as approved by my thesis committee and the Graduate Studies office, and that this thesis has not been submitted for a higher degree to any other University or Institution.

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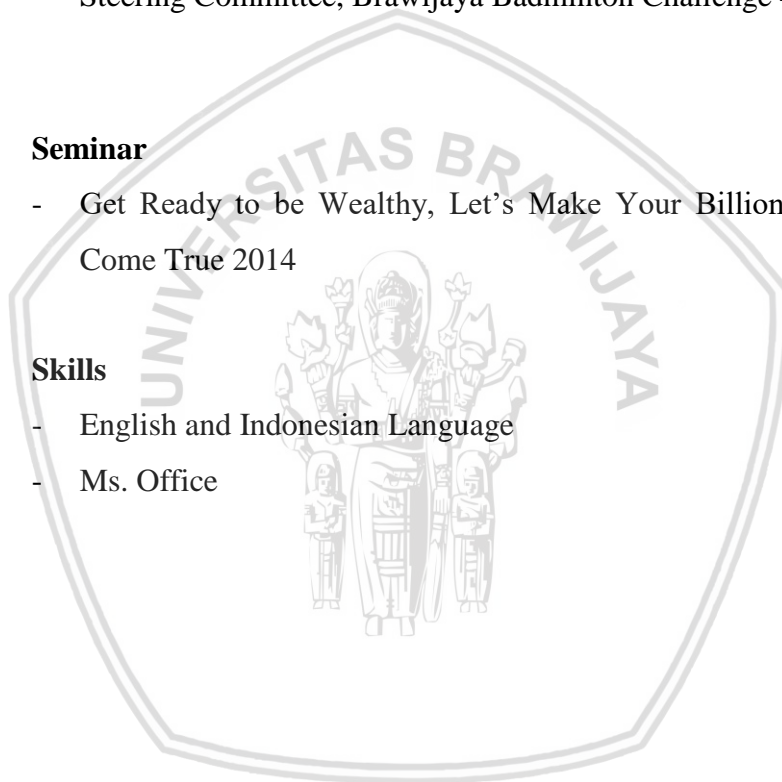
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Aruma Resdha Rintami

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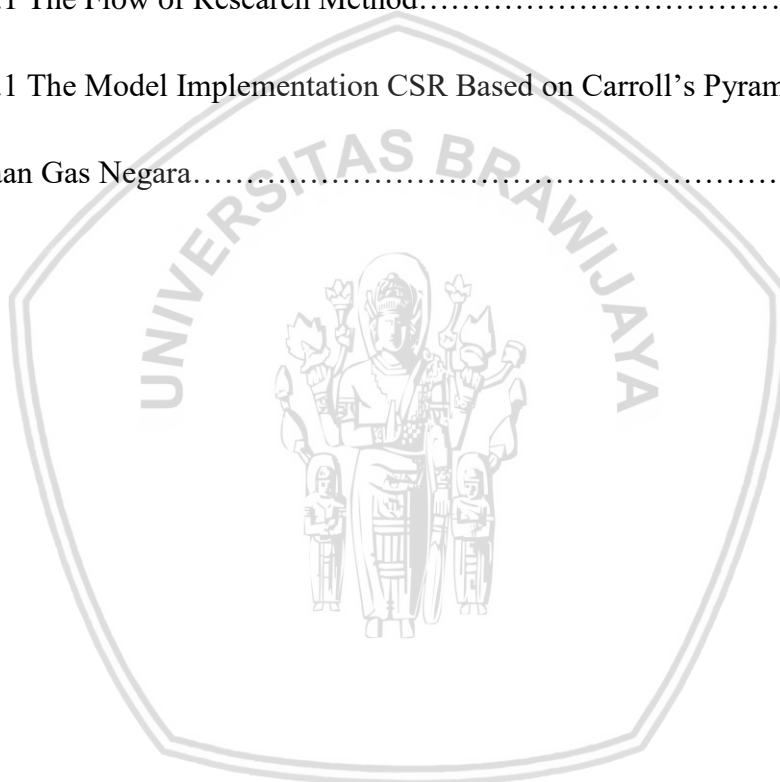
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## CHAPTER I

### INTRODUCTION

#### 1.1 Research Background

The economic and business activity developments in the globalization era have improved quickly. The three main activities of business include production, distribution, and consumption, while in industrial companies, the activities are production, packing, distribution, marketing, and financing. The goal of the company is to increase company value such as gain maximum profit and implementing the corporate social responsibility. By implementing corporate social responsibility, the company can minimize the social and environmental damage.

There are several company activities in Indonesia that cause damage to social and environment of the surrounding local community. As an example, a major problem occurred in PT. Freeport Indonesia. Since 2000 PT. Freeport Indonesia has created environmental damage, such as the repeated landslide of uncontrolled toxic waste on Wanagon Lake rocks and unlicensed Acid Rock Drainage removal. The Supreme Audit Agency (BPK) stated that environmental damage resulting from PT. Freeport Indonesia mining act in Papua had caused Rp185 trillion in state losses ([www.thejakartapost.com](http://www.thejakartapost.com)).

Corporate Social Responsibility (CSR) is a challenge for companies in applying moral standards to business practices responsibility. When the corporate profits increase, on the other hand, the damage, such as environmental damage in social life surrounding communities, arise. Therefore, there is an orientation of



transformation on the company's goals (Sari, Sutrisno, and Sukoharsono. 2011). In the economic aspect, the company is expected to get high profit and, in the social aspect, companies should contribute directly to the public by improving the quality of life of the community and the environment.

As the form of corporate social responsibility to society, the company should develop the concept of 3P introduced by Elkington (1998), namely People, Planet, and Profit, or the concept of Triple-Bottom-Line. The concept is also known as sustainability which means that the ability of the company to survive for as long as possible or considered as going concern. Moreover, John Elkington (1998) stated that:

*“At its narrowest, the term “triple-bottom line” is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters. At its broadest, the term is used to capture the whole set of value, issue, and processes that companies must address in order to minimize any harm resulting from their activities and to create economic, social, and environmental value. The three lines represent society, the economic, and the environment. Society depends on the economic – and the economy depends on the global ecosystem, whose health represents the ultimate bottom line”*

Based on the quotes above, Triple Bottom line (3P) is pillars to measure the successfulness of the company based on three criteria's: economy, environment and social. This concept attempts to empower the community and preserve the environment in the overall corporate strategy. Moreover, triple bottom line is an idea to run an organization that not only depends on the single line (profit) but also betters people's lives and helps the planet.

Most of the company in Indonesia disclose their CSR activities as an integrated part of the annual report. Nielsen and Thomsen (2007) stated that since 1999, the social and environmental report were combined into a sustainability report in its annual report. Then, in 2000, The Global Reporting Initiative Organization (GRI) launched 4 versions of sustainability reporting guidelines are as follow GRI-G1 at 2000, GRI-G2 at 2002, GRI-G3 at 2006 and GRI-G4 at 2013. Nielsen and Thomsen (2007) also stated that adopting disclosure categories consistently will communicate a strong commitment not only to the social environment but also to the shareholders.

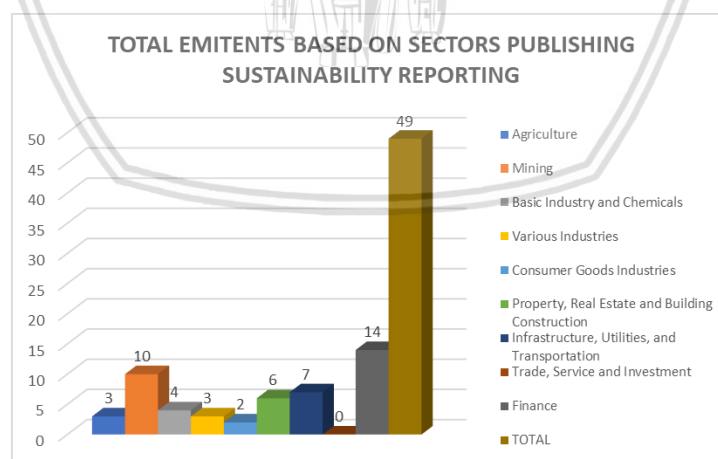
A sustainability report is a report conducted by a company in order to disclose or communicate to all stakeholders about environmental, social, and good governance performance in an accountable method. Sustainability reporting disclosure in Indonesia is currently only voluntary. There are around 9% of companies listed on the Indonesian Stock Exchange published a sustainability report. At present, the standard used to disclose the CSR is based on the Global Reporting Index (GRI).

The Government of Indonesia encourages the importance of social and environmental reporting by publishing Law of The Republic of Indonesia Number 40 of 2007 concerning Limited Liability Company (UUPT). Article 1 paragraph 3 states that the aim of social and environmental responsibility is to improve the quality of life and the environment that is advantageous for the company, local communities, and society in general. Specifically, article 74 of chapter V regarding

Social and Environment Responsibilities states that social responsibility and environment are mandatory and shall be included in company's budget and be calculated as the expense with due attention to propriety and fairness.

Moreover, to deal with worldwide economic changes and Indonesia's contributor in various international cooperation and to accelerate national economic development, Indonesian government published the Law of The Republic Indonesia Number 25 of 2007 regarding investment on article 15, which states that every investor has an obligation to implement corporate social responsibility. It means that every investment company should create a relationship which is in synchronization, instability, and suitable for the environment, local community, values, norms, and culture.

**Figure 1.1**  
***Total Emitents Based on Sectors Publishing Sustainability Reporting***



**Source: Otoritas Jasa Keuangan, Edited (2017)**

Based on the Research and Statistics of the Otoritas Jasa Keuangan (OJK) on March 14, 2017, at the end of 2016, there are 49 listed companies in BEI that have reported sustainability reports. Figure 1.1 shows the number of companies

based on sectors which publish sustainability reports. Type of sector with most published sustainability reports are Financial Industry with 14 companies has disclosed the reports. Following that, there are 10 Mining companies, 6 Property, Real Estate and Building Companies, 6 Infrastructure, Services, and Investment Basic Industry and Chemicals, 3 Agriculture companies, 3 Various Industries, and 2 Consumer and Goods Industries.

PT. Perusahaan Gas Negara (PGN) is one of the companies that regularly publish its sustainability reports. PGN was officially established on May 13, 1965. It is the largest state company in the natural gas transportation and distribution section. The company plays a significant role in meeting internal natural gas needs. PGN has divided its business into four main business segments in conducting its business activities as follows: (1) Natural gas transmission and transportation, (2) Commerce and natural gas business, (3) Oil and natural gas business, and (4) other business. As of 31 December 2017, the total number of issued and fully paid shares is 24.241.508.196 shares. Indonesia is the majority shareholder that own 56,96% of shares and 43,03% of shares are owned by the public shareholder.

Ikatan Akuntansi Indonesia (IAI) and National Center for Sustainability Reporting (NCSR), which consists of Indonesian-Netherlands Association (INA), Forum for Corporate Governance in Indonesia (FCGI), Komite Nasional Kebijakan Governance (KNKG) and Asosiasi Emiten Indonesia (AEI) conducted Indonesia Sustainability Reporting Award (ISRA) in 2005. ISRA is an awarding event as an

appreciation to companies that have conducted sustainability report that is published separately or integrated into an annual report.

The implementation of Corporate Social Responsibility on PT. Perusahaan Gas Negara (Persero) Tbk is getting an achievement from National Center for Sustainability Reporting on IRSA 2016. In 2016, there are 55 companies have participated, 15 of which are SMEs and two are from Bangladesh. PT. Perusahaan Gas Negara (Persero) Tbk. won “Best Overall ISRA 2016”. Moreover, in 2017, PT. Perusahaan Gas Negara (Persero) Tbk won “Best Overall ISRA 2017” in the same awarding.

Moreover, Top CSR Award 2017 is an awarding event held by the Business News based on the ISO 26000: Guidance Standard on Social Responsibility. PGN won two categories of the awarding. Firstly, in Rural Economic Development Category, PGN won as the TOP CSR 2017. Secondly, the president director of PGN, Hendi Prio Santoso, was awarded as the winner in the Top Leader on CSR Commitment category ([www.marekt.bisnis.com](http://www.marekt.bisnis.com)).

As the winning of TOP CSR in 2017 and IRSA in 2016 and 2017, PGN is chosen as a subject of this minor thesis because the researcher is interested to analyze the implementation of CSR on PT. Perusahaan Gas Negara (Persero) Tbk. Therefore, based on the argument and problems above, the title of the research is **“THE ANALYSIS AND MODEL OF IMPLEMENTATION CORPORATE SOCIAL RESPONSIBILITY BASED ON CARROLL’S PYRAMID (A Case Study on PT. Perusahaan Gas Negara (Persero) Tbk.)”**

## 1.2 Research Problem

Research problems formulated in this study are:

1. How is the implementation of Corporate Social Responsibility based on Carroll's pyramid at PT. Perusahaan Gas Negara (Persero) Tbk.?
2. How is the model of Corporate Social Responsibility implementation based on Carroll's pyramid at PT. Perusahaan Gas Negara (Persero) Tbk.?

## 1.3 Research Purpose

In accordance with the research problem mentioned above, the purposes of this research are:

1. To analyze the Corporate Social Responsibility implementation based on Carroll's pyramid at PT. Perusahaan Gas Negara (Persero) Tbk.
2. To analyze the model of Corporate Social Responsibility implementation based on Carroll's pyramid at PT. Perusahaan Gas Negara (Persero) Tbk.

## 1.4 Research Contribution

The result of this study is expected to contribute significant contribution to related stakeholders, among others as the following:

1. Theory Contribution

The result of this study is to provide the additional explanation for further study for other researchers projected to provide benefits to add the information relating to the study of CSR.



## 2. Practical Contribution

The result of this study can be used as input and evaluation material of CSR Implementation on PT. Perusahaan Gas Negara (Persero) Tbk.

## 3. Contribution for Future Research

To provide references and theory development for future research.



## CHAPTER II

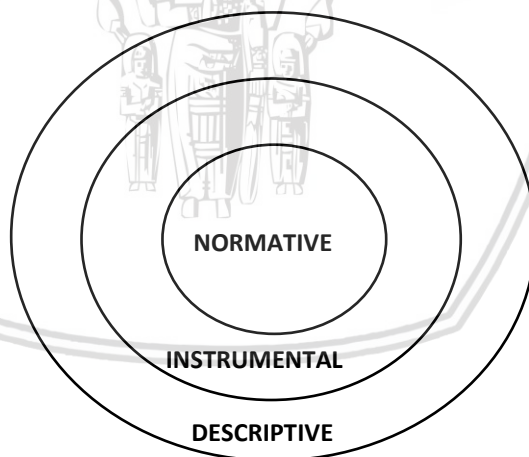
### LITERATURE REVIEW

#### 2.1 Theoretical Analysis

##### 2.1.1 Stakeholder Theory

Donaldson and Preston (1995) stated that the stakeholder theory is “managerial” and that the attitude, structures, and contribute that taken together, create a stakeholder management philosophy. Moreover, the stakeholder theory in the management literature has three aspects: (1) descriptive, (2) Instrumental and (3) Normative.

**Figure 2.1**  
*Three Aspects of Stakeholder Theory*



**Source: Donaldson and Preston (1995), edited**

Based on the figure above, the descriptive observed that the organization have stakeholders, with direct or indirect managerial inferences. In the instrumental side, the stakeholder management underwrites to successful economic performance and the most caring analyses on why stakeholder might be unconcernedly related to

corporate performance in the normative side. Donaldson and Preston (1995) thought that the final justification for the stakeholder theory is to be found in its normative base.

Carroll (1991) stated that the four-important functions of stakeholder management are to describe, understand, analyze, and manage. It can be seen from the cooperation investors and large appropriate funds that have important authority to the management to predict the amount of their investment and the actual that they are planned. Furthermore, the activities planned by the stakeholders can be represented by an owner, staffs, or a customer who influenced the company.

The corporate objective function consists of output and efficiency, social wellbeing, and the responsibility of managers and directors. Jensen (2010) argued that managers should make choice and responsibility of the interest of all stakeholders in a firm including employees, customers, societies, governmental and environmental. Stakeholder theory brings an appearance of valid political entree to the sources of decision-making authority in the organization.

Stakeholder theory becomes popular with the statement that values are needed and clearly a part of business activities, especially, the value created by the stakeholder about the relationship to deliver on their purpose. Freeman, Wick, and Parmar (2004) argued that the stakeholder theory is managerial that it imitates and guides how managers operate rather than chiefly lecturing management theorists and economists. Moreover, the core of stakeholder theory on today's economics is economic value created by the people who voluntary and cooperate to increase everyone's situation.

### 2.1.2 Legitimacy Theory

Environment becomes the most attention to the community to deal more effectively with. The company has been more responsive in better managing the effect of the environment and disclose environmental information in the annual report. Wilmhurst and Frost (2000) argued that the peripheral factors encourage corporate management to pursue to legitimize activities with many factors that may affect the decision of the management. Moreover, they define environment as:

*“If the members of the community are becoming more interested in the environmental impact of companies, it is likely that the senior management will be called on to explain the company’s activities affecting the environment. Such accessibility may be prompted through disclosure within the annual report.”*

Archel et al. (2009) argued that a firm under Social Environmental Disclosure (SED) tactically to legitimize a new production procedure over the manipulation of social insights and that this plan was supported indirectly and openly through conceptual alignment with the State. Furthermore, legitimacy theory expects that there is a legitimacy gap found by the business managers if they implement dissimilar strategies such as:

- 1) to precise the behavior of their organization;
- 2) to change the awareness that society has of their behavior;
- 3) to transform the insight that society has of their behavior by destructing its kindness; and

- 4) to indoctrinate the society by changing its expectancy and bring them to the organization's goal.

Barkemeyer (2007) stated that by using legitimacy as a key driver determinant of CSR in developing countries, there are two main limitations that can be identified: (1) A multinational company working in an isolated country mainly pursue to gain legitimacy from their prime stakeholders (e.g. customers, media), going to a bias toward short-term plans with a high perceptibility rather than long-term. (2) by differing awareness in the home and the mass country can lead to a miscalculation of which kind of inventiveness would be deemed.

### **2.1.3 Corporate Social Responsibility (CSR) Concept**

#### **2.1.3.1 History of CSR**

The development of CSR has created some deep thought from researchers about the importance of a company to implement CSR, especially, in social and environmental oriented activities. Sukoharsono (2010) stated that there are ten phases on the emergence of CSR:

1. First Phase – Howard Bowen

Howard Bowen (1908 – 1989) is a historian of American economists who encourage the emergence of social and environmental accounting. Bowen's contribution was publishing a book entitled *Social Responsibility of Businessmen* in 1953. Bowen (1953) based this concept stated that:

*“Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life”*

Therefore, the basic concept stated that social responsibility is a mandatory task for a business actor to align business goals with objectives and the values of the community.

## 2. Second Phase – Keith Davis

Davis (1960) published his writings about “Can Business Afford to Ignore its Social Responsibilities?” Davis views that a company should have a social responsibility. On that era, most of the corporations implemented the economy classic in maximizing their profit to use resources efficiently to produce goods and services at affordable prices. The benefit of the company in implementing social responsibilities are (1) creating jobs, (2) contributing to the governance by paying tax, and (3) producing goods at rational prices.

## 3. Third Phase – US Committee for Economic Development

Committee for Economic Development (CED) is a non-profit and American non-partisan organization that published a report in 1971 about “Social Responsibilities of Business Corporation” or what is known as “the three concentric circles”. The three concentric circles are (1) the inner circle of responsibilities, (2) the intermediate circle of responsibilities, and (3) the outer circle of responsibilities.

Moreover, Carroll (1979) stated that there are four categories of social responsibilities’ component. There are (1) economic responsibilities, (2) legal responsibilities, (3) ethical responsibilities, and (4) discretionary responsibilities. Because of the additional needs from the company to implement the social and environmental reporting, Carroll (1979); Wartick and



Cochran (1985); and Wood (1991) developed the concept of Corporate Social Performance (CSP).

#### 4. Fourth Phase – The Mandatory of First France Regulation in The World

Davis (1960) developed his argument with a new statement about “iron law of responsibilities” that became the emergence of social and environmental accounting. The argument became a reference for the importance of reputation and public legitimacy of the existence of an organization. France was the first country who start to implement the social and environmental accounting as a mandatory in 1977.

#### 5. Fifth Phase – The Collapse of Socialist Economy

The collapse of a socialist economy that was confronted with a conservative neoliberal economy in the 1980s resulted in the stagnant development of social and environmental accounting. The emergence of a financial scandal by Maxwell and Adir in the UK resulted in the emergence of corporate governance regulations that prioritize the shareholders so that financial control is organized more stringently. Even though a stringent financial control is being implemented, the concept and framework of the social and environmental accounting are still employed. Then, Socially Responsible Investing (SRI) becomes popular to use in the UK.

#### 6. Sixth Phase – Balance Scorecard

This phase is a combination of a financial and a nonfinancial aspect in assessing an organizational performance. Art Schneiderman in 1987 and Kaplan and Norton (1990) initially redesign the social and environmental

accounting in Balance Scorecard comprehensively. There are four phenomenal perspectives (1) Financial, (2) Customer, (3) Internal Business Processes, and (4) Learning and Growth. Most of American and Europe companies are using this concept to express its organization's concern to its stakeholders.

#### 7. Seventh Phase – Robert Hugh Gray

Gray's contribution (1992) to the development of social and environmental accounting is absolute. Its publications have stained social and environmental accounting concepts to the idea of accounting for sustainability. Gray (1993) identifies different standards of sustainability accounting methods. There are three methods in this idea (1) sustainable cost, (2) natural capital inventory accounting, and (3) input. At this phase, the implementation of social and environmental accounting was designed as a quantitative aspect of monetary value to support the conventional accounting.

#### 8. Eight Phase – John Elkington Triple Bottom Line

Elkington (1997) is the originator of the concept of 'Triple Bottom Line'. This concept delivered a more thoughtful inspiration for the expansion of a 'single bottom line' of conventional accounting, i.e. financial only. The triple bottom line becomes important when people, planet, and profit became the concept of social and environmental responsibilities accounting. The reflection of the triple bottom line includes three aspects of activities (1) social aspect, (2) economy aspect, and (3) environmental aspect.

## 9. Ninth Phase – Sustainability Reporting

Coalition for Environmentally Responsible Economies (NGO CERES) and The United Nations Environment Programme (UNEP) established Global Reporting Initiative (GRI) as an independent organization to build Sustainability Reporting Standard in 1997. This phase provides the development of social and environmental accounting much better by wide spreading the adoption pattern. GRI G3 reporting model can inspire the new reporting model as an alternative to the conventional accounting reporting.

### 2.1.3.2 Definition of CSR

Corporate Social Responsibility (CSR) has constantly been interpreted as a business instrument relating to branding, image, building, and profits of various kinds (Mehta, 2011). Based on Dahlsrud (2008), there are 37 definitions of CSR found from 1980 to 2003. The social, environmental, and economic sides are simply different categories of business effects.

Based on World Business Council for Sustainable Development (WBCSD), the first CSR dialogue in the Netherlands, developed in 1998, where CSR was defined as:

*"Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"*

Moreover, WBCSD (2000) stated that the original definition is rationally dependable with the regional inputs, but can be enhanced. Therefore, the statement now is:

*“Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life”*

Commission of the European Communities (2001) also indicated the definition of corporate social responsibility since the increasing number of European companies are encouraging their corporate social responsibility strategies as a response to a variety of social, environmental, and economic densities. The definition of CSR is as follows:

*“Corporate social responsibility is essentially a concept whereby companies decide voluntarily to contribute to a better society and cleaner environment”*

CSRwire, a digital media platform for the latest news, views, and reports on corporate social responsibility and sustainability defines CSR as:

*“CSR is the integration of business operations and values, whereby the interests of all stakeholders including investors, customers, employees, the community and the environment are reflected in the company's policies and actions.”*

Carroll (1997) stated that moral and immoral of the managers come from the reality of the social responsibility. He divides the types of moral into three; immoral management, amoral management, and moral management. The example of the immoral management is the main focus of a company is profitability and success. The second type is the lack of ethical perception or responsiveness. The last type can be seen from the characteristic by the acceptance of profitability, legal, and ethical perception, such as fairness and justice.

Based on the definition of CSR defined by the experts mentioned above, CSR can be interpreted as having a company's commitment and responsibility for its operations that are not only oriented to profit, but also to the social, economic, and

environmental benefits. The implementation of CSR can have a positive impact on the company and the surrounding environment by prioritizing sustainability rather than merely the profitability of the company.

#### **2.1.3.3 Benefits of CSR**

Implementation of CSR provides benefits for companies, among others, consumers favor company's products and investors increase investment in the company. The Aspen Institute (2003) identified the benefits of CSR by surveying twelve International Business Schools as participants. The result of the study showed that CSR delivers certain benefits: (1) better public image/reputation, (2) greater customer loyalty, (3) more satisfied and productive workforce, (4) fewer regulatory or legal problems, (5) long-term viability in the marketplace, (6) stronger and healthier community, and (6) long-term growth of revenue.

Moreover, another researcher, Weiss (2003) stated that CSR improved competitive advantage in terms of reputation, successful social investment portfolios, and capability to quality employees. Upham (2006) stated that CSR benefits a company by delivering a powerful positive effect on employees. Thus, CSR grows employee retention, enhances connection with the company, and rises serving behavior. While, Cetindamar and Husoy (2007) stated that by implementing CSR, a company acquired expanded network opportunities and obtained corporate image that most likely would influence their performance positively.

Based on Branco and Rodrigues (2006), the benefits of CSR are divided into two types: internal and external. The internal benefits include:

- 1) enhancing employee inspiration, morale, commitment, and loyalty to the company;
- 2) reducing turnover, recruitment, and training costs;
- 3) increasing employee's positive attitudes about workplace quality;
- 4) rising competitive advantage due to employee's positive workplace attitudes; and
- 5) improving general management and operational efficiency through the CSR.

While some of the external benefits are:

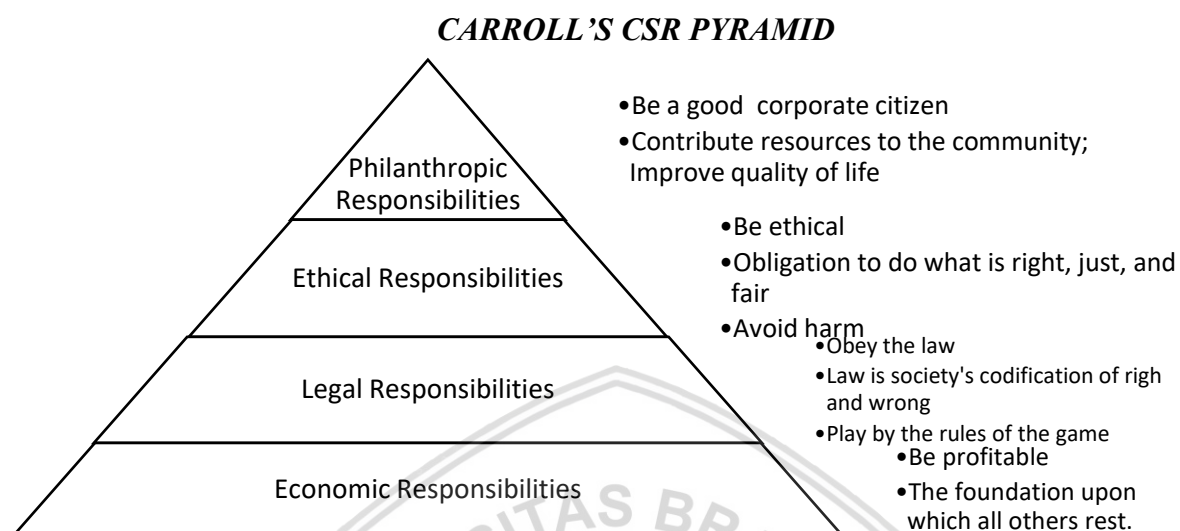
- 1) better relations with external factors;
- 2) a positive reputation with stakeholders; and
- 3) enhanced financial outcomes due to stakeholder's loyalty.

#### **2.1.3.4 Carroll's Pyramid**

The pyramid of corporate social responsibility was published by Carroll in 1991. Carroll made it suitable to all level and range of the business responsibilities. There are four categories on Carroll's Pyramid: economic, legal, ethical, and philanthropic. Moreover, the four categories of Carroll's Pyramid will be included to the economic and social point view of CSR and the goals from the stakeholders.



Figure 2.2



Source: Archie B. Carroll, 1991.

Based on Figure 2.1 about the Carroll's CSR Pyramid, a company must be responsible to the economy to get profit, responsible to law to obey the law, responsible to ethical to do the right, just, and fair, the last and the highest is responsible to the philanthropic to the good of corporate to the children.

**Table 2.1**  
***Economic and Legal Components of Corporate Social Responsibility***

Economic Components	Legal Components
<ol style="list-style-type: none"><li>1. It is important to perform in a manner consistent with maximizing earnings per share.</li><li>2. It is important to be committed to being as profitable as possible.</li><li>3. It is important to maintain a strong competitive position.</li><li>4. It is important to maintain a high level of operating efficiency.</li><li>5. It is important that a successful firm be defined as one that is consistently profitable.</li></ol>	<ol style="list-style-type: none"><li>1. It is important to perform in a manner consistent with expectations of government and law.</li><li>2. It is important to comply with various federal, state, and local regulations.</li><li>3. It is important to be a la-abiding corporate citizen.</li><li>4. It is important that a successful firm be defined as one that fulfills its legal obligations.</li><li>5. It is important to provide goods and services that at least meet minimal legal requirements.</li></ol>

Source: Carroll, 1991.

a. Economic Responsibility

Economic responsibility is the basis for all other responsibilities. The satisfaction of economic responsibility is the main goal of the company, which is to generate profits for companies to survive and to grow. The company does principal roles, such as producing goods and services based on the consumers need and gaining profit in the process. (Carroll.1991).

b. Legal Responsibility

Besides becoming a profitable company, a company must operate the business based on the law and regulations by federal, state, and local government (Carroll. 1991). The law is clear and definite because it is written including the rules of what to do and what not to do and there are certain sanctions for violations.

**Table 2.2**  
***Ethical and Philanthropic Components of Corporate Social Responsibility***

Ethical Components	Philanthropic Components
<ol style="list-style-type: none"> <li>1. It is important to perform in a manner consistent with expectation of social mores and ethical norms.</li> <li>2. It is important to recognize and respect new or evolving ethical/moral norms adopted by society.</li> <li>3. It is important to prevent ethical norms from being compromised in order to achieve corporate goals.</li> <li>4. It is important that good corporate citizenship be defined as doing what is expected morally or ethically</li> <li>5. It is important to recognize that corporate integrity and ethical behavior go beyond more compliance with laws and regulations.</li> </ol>	<ol style="list-style-type: none"> <li>1. It is important to perform in a manner consistent with philanthropic and charitable expectations of society.</li> <li>2. It is important to assist the fine and performing arts.</li> <li>3. It is important that managers and employees participate in voluntary and charitable activities within their local communities.</li> <li>4. It is important to provide assistance to private and public educational institution.</li> <li>5. It is important to assist voluntarily those projects that enhance a community's "quality of life"</li> </ol>

**Source: Carroll, 1991.**

c. Ethical Responsibility

Carroll (1991) stated that ethical responsibility represents the standard, norms, or expectancy that replicates a concern for what clients, staff, shareholders and the public about fair, just, or keeping with the respect or protection of stakeholder's ethical right. An ethical responsibility is an unwritten responsibility, the rules, and expectations of stakeholders.

d. Philanthropic Responsibility

Philanthropy includes corporate activities that are in response to society's expectancy of what benefits do businesses delivers to corporate citizens (Carroll, 1991). The main activities in philanthropic responsibility are to promote the human welfare or goodwill, such as contribution to the arts and education for the community. A company contributes their money, facilities and employees time to humanitarian programs or purposes in the desired level.

Moreover, Carroll (2004) stated that the Global CSR Pyramid recommends that the MNC should attempt to:

1. make a profit reliable with opportunities for worldwide businesses;
2. obey the law of mass countries as well as international regulation;
3. be ethical in its practices, taking host-country and worldwide standards into reflections;
4. be a good corporate citizen, specifically as defined by the mass country's opportunities.

Therefore, the Global Pyramid of CSR and Performance will support managers think through a systematic way the different stakeholder expectancy placed on their organizations.

#### **2.1.4 Corporate Social Responsibility (CSR) Policy in Indonesia**

Indonesian governance concern about CSR had grown as social and environmental problems occurred. Therefore, the government published some policies about CSR, based on the ministerial decree of SOE No. 05-MBU / 2007 concerning Partnership Program State-Owned Enterprises with Small Business and Community Development Program. The regulation is not using the term CSR, but the program is identical to CSR.

Moreover, the government of Indonesia published the policy about the importance of social and environment, The Law of The Republic of Indonesia Number 40 of 2007 concerning Limited Liability Company (UUPT). The policy stated that the aim of social and environmental responsibility is to improve the quality of life and give benefit to the company. Therefore, the corporate social responsibility should be budgeted and calculated at the company's expense.

Lastly, the Law of The Republic Indonesia Number 25 of 2007 concerning investment stated that the investor has an obligation to implement corporate social responsibility. Therefore, CSR can create good relations between the stakeholders to the company and the company to the environment, local community, values, norms, and culture.

#### **2.1.4.1 Corporate Social Responsibility (CSR) in Indonesia**

CSR began famously in Indonesia in the 1980s with increasing popularity in the 1990s. The implementation of CSR in Indonesia is characterized by the activities in the company in the form of charity and empowerment. At that time, CSR activities in Indonesia, known as Corporate Social Activity (CSA), with the CSR concept and mindset are almost the same. CSR and CSA represent the form of corporate participation and awareness on social and environmental aspects by doing disaster aids and mitigation, sharing holiday allowance (THR), and scholarship.

Based on the recent history of Kemp (2001), Indonesia has been using transnational corporations (TNCs) for many years as the legacy of the colonial regime and the Dutch East India Company. At that time, CSR was a relatively new concept and practices. Moreover, large businesses in Indonesia was labeled as "conglomerates" that is connecting groups of business to Indonesian political elites and large State-Owned Enterprises (SOEs).

Social Department is a government institution that is actively developing CSR concepts and provide advocates to various national companies. In 2007, the government published the Law no. 40 of 2007 on the obligation of Limited Liability Company to develop awareness of the importance of social and environmental acts. However, the implementation of the CSR program in the company only as a mean of seeking public image or reputation and interrelationship of government regulations.

Moreover, to develop and accelerate the national economic development internationally, the government of Indonesia publishes the Law of The Republic of Indonesia Number 23 of 2007 about investment, where on article 15 is stated that every investor must implement corporate social responsibility. The aim is to plan the continuous development process in all part of life, the environmental protection, and conservation both on the current day and the upcoming days.

## 2.2 Previous Research Analysis

There are various previous studies on the disclosure of CSR implementation in Indonesia have been carried out, one of the studies conducted by Widodo, Sukoharsono, Hidayat and Djati (2018) studied CSR entitled “*Phenomenology Study of Corporate Social Responsibility: Perspective of PT. Petrokimia Gresik Management*”. This study was using a qualitative study based on the phenomenological research. The case was on PT. Petrokimia Gresik. The findings of the study were PT. Petrokimia Gresik management implement the concept of CSR into 6 responsibilities, as follow, to the government, shareholders, public, environment, employees, and customers by partnership programs and community development programs.

Moreover, Wicaksono (2013) studied CSR entitled “*The Implementation of CSR Report Based on Triple Bottom Line and ISO 26000*”. The study was using a qualitative study based on descriptive perspective methods. The case was on PT. Astra Tbk.. The findings of the study were the implementation of CSR activities



has been appropriate with the indicator in ISO 26000 in organizational governance, labor practice, human right, customer issue, community development and environment issue. However, some indicators about the fair operating practices are not published on the report by the company, such as anticorruption, reasonable operating practice, responsible political contribution and respect for belongings right.

Moreover, according to Kartikarini (2015) studied CSR entitled “*The Implementation of Corporate Social Responsibility (CSR) to Social Welfare*”. This study was using data collection techniques by observation, in-depth interview, documentation and references review. The case was on at PT. Petrokimia Gresik. The findings of the study were the Partnership Program and Community Development has built the economy and the mutualism relationship to the community. It was based on the satisfaction investigation and the lack of stringed instrument between the company and the community. The company also implement the CSR based on the SOE Ministry Decree number PER-06/MBU/2007 on the Partnership Program and Community Development Enterprises.

Puspitasari and Sukoharsono (2016) studied CSR entitled “*Program Kemitraan dan Bina Lingkungan (PKBL) Sebagai Implementasi Tanggungjawab Sosial Badan Usaha Milik Negara: Studi Pelaksanaan PKBL Perum Jasa Tirta 1*”. This study was using semi-participant observation, interviews and documentation method. The case was on Perum Jasa Tirta 1. The findings of the study were the implementation of PKBL as CSR activities appropriate to the triple bottom line concept such as on the social, environmental, and financial concept into some



activities. The report of PKBL activity are arranged quarterly and annually, submitted to SOE Minister and recorded into PKBL part.

Moreover, Adjie (2012) studied CSR entitled “*Analisis Corporate Social Responsibility (Studi Kasus Pada Perusahaan-Perusahaan Pemenang Indonesia Sustainability Reporting Awards (IRSA) 2011)*”. This study was using descriptive qualitative method. The case was on the winning company of IRSA 2011. The findings of the study were the company that won ISRA 2011 has implement CSR on education, health, public services and environmental maintenance. Then, the winning IRSA 2011 disclosed the activities mostly on the economic indicators.

Ammal (2017) studied CSR entitled “*The Implementation of Social Responsibility at Hospital: A Case Study at Public and Private Hospitals in Malang*”. This study was using descriptive approach as a qualitative study. Furthermore, to collect the data, the study used interview, documentations, and observation. The case was on RSUD dr. Saiful Anwar as a public hospital and Lavalette Hospital as private hospital in Malang. The finding of the study was the company carried out CSR activities and fulfilled the concept of triple bottom line that consists of social aspect (people), environmental aspect (planet), and economy aspect (profit).

## CHAPTER III

### RESEARCH METHOD

#### 3.1 Type of Research

The research method used in this research is a qualitative descriptive research method. The qualitative research method is a study that uses a natural background with the study of information in the theory literature relating to research. Based on Moleong (2004:6) stated that qualitative method studies the phenomenon experienced by the subject of research in a holistic way and descriptively in the form of words and languages in a natural special context by utilizing various natural methods. Moreover, the descriptive approach is an approach in research to determine and explain the characteristics of variables studied. Therefore, researchers can get results from this analysis there is a picture of variables, symptoms or circumstances.

This research used the case study approach. Yin (2009) stated that the case study research approach is a research methodology to investigate the current phenomenology in a reality of life. Moreover, the object selected by the researcher should be contemporary on going or implemented but give wide, and strong damage while the research is conducted. Case study approaches have a purpose in answering the question "how" and why "in the case under study, so that the study of case studies can be explanatory by exploring explanations or causes and effects on the object of research.

Case study and descriptive approaches was chosen with the aim is to analyze CSR's PGN activities as the winning of TOP CSR 2017 and ISRA 2016 and 2017 according to the Carroll Pyramid which consists of four categories. Thus, in this study companies can be more aware and care about the natural environment and the surrounding environment by complying with the regulations made by the Indonesian government.

### **3.2 Object Research**

The object of the research is PT. Perusahaan Gas Negara (Persero) Tbk. PT. PGN as the largest national company is a state-owned (SOEs) company engaged in the transmission and distribution of natural gas who implements the CSR and disclose sustainability reporting. Moreover, PT. PGN won "Best Overall" IRSA in 2016 and 2017. Therefore, the researcher interested to know how PT. PGN is responsible for its CSR activities.

### **3.3 Data Collection Techniques**

Data collection techniques are techniques used by researchers in collecting data or information. Data collection techniques aim to obtain relevant data in achieving research objectives. In this study, the data collection techniques used focused on documentation. Data is collected from written documents owned by PT. PGN related to CSR implementation.

Data collection techniques in this study were based on the literature technique and documentation technique. Literature technique are used to gather information about PT. PGN and the information needed during the study were conducted. By using this technique, this research can learn and quote from books, articles, journals and previous research that is related to CSR and Sustainability Reporting. Literature technique is mostly an online search through relevant sites. The main literature that this study used are from Archie B. Carroll who published the pyramid of CSR.

Moreover, documentation technique is complete by collecting data by observing at documents or notes through IDX or the official company website that has relationship with research needs. The documents used in this study to gather necessary information about this research are annual report, sustainability report, and financial report of PT. PGN in 2016 and 2017.

According to Lexy J. Moleong (2002) triangulation is a technique for checking the validity of data used for data that is for checking purposes or as a comparison of that data. Denzin in Moleong (2002) there are four types of triangulation as a checking technique that utilizes the use of resources, methods, investigators and theories. The step used in this data triangulation technique is to use source triangulation. Patton in Moleong (2002) explained that triangulation with sources means comparing and checking back the degree of trust of information obtained through different time and tools. In this study using written documents, archives, and official reports of PT. PGN in 2016 and 2017 produced different bills or data. so that it can provide a different view of the phenomenon studied.

Data collection techniques are as follow:

1. access documents through the official website of PT. PGN that consists of annual report, sustainability report, financial report and good corporate governance report in 2016 and 2017;
2. collect and study literature related to research.

Documentation techniques used in this research because as the winning of IRSA 2016 and 2017, the implementation of CRS on the PGN must be appropriate to the GRI G4 guidelines that consist of 3 criteria's: economic, social, and environmental. Therefore, documentation technique seems appropriate by comparing annual report, sustainability report, financial report, and good corporate governance report in 2016 and 2017

### **3.3.1 Data Resource**

The type of data used in this research is secondary data for all variables containing variable independent and variable dependent. Secondary data is a data collected by other person other than the researcher leading the present study (Sekaran and Bougie, 2014: 116). The data that used in this research is secondary data which obtained from the website of Indonesia Stock Exchange, [www.idx.co.id](http://www.idx.co.id) and the official website of PT. PGN. The data in 2016 and 2017 related to the research are:

1. Sustainability Report;
2. Annual Report;
3. Financial Report;

4. Good Corporate Governance Report;
5. The content in official website of PT. PGN.

### **3.4 Data Analysis Techniques**

Case study and descriptive approaches are a technique of data analysis in this research. Based on GAO (1996) in Elo and Kyngas (2007) stated that the analysis procedure and the results should be described in appropriate, detail, and the readers have a clear empathetic of the research. Therefore, the expectation of the result in this study can describe in detail based on the implementation CSR on PT. PGN.

The first stage of the study was based on Carroll's Pyramid pattern used as the basis for the study. Carroll's Pyramid is used to identify, analyze, describe and evaluate in detail about the implementation of CSR on PT. PGN so that in accordance with the expected by stakeholders and the local community. The implementation of CSR on PT. PGN was classified into four social responsibility based on Carroll's Pyramid. There is economic responsibility, legal responsibility, ethical responsibility and philanthropic responsibility.

Based on the economic responsibility, the researchers describe the implementation of CSR to gain the expectation for the stakeholders and the profit as their main goals by increasing the income and gain the profit from producing goods, services and creating jobs in PT. PGN. Moreover, by the economic responsibility, it means that the PT. PGN should maintain the level of operating efficiency and be consistently profitable.

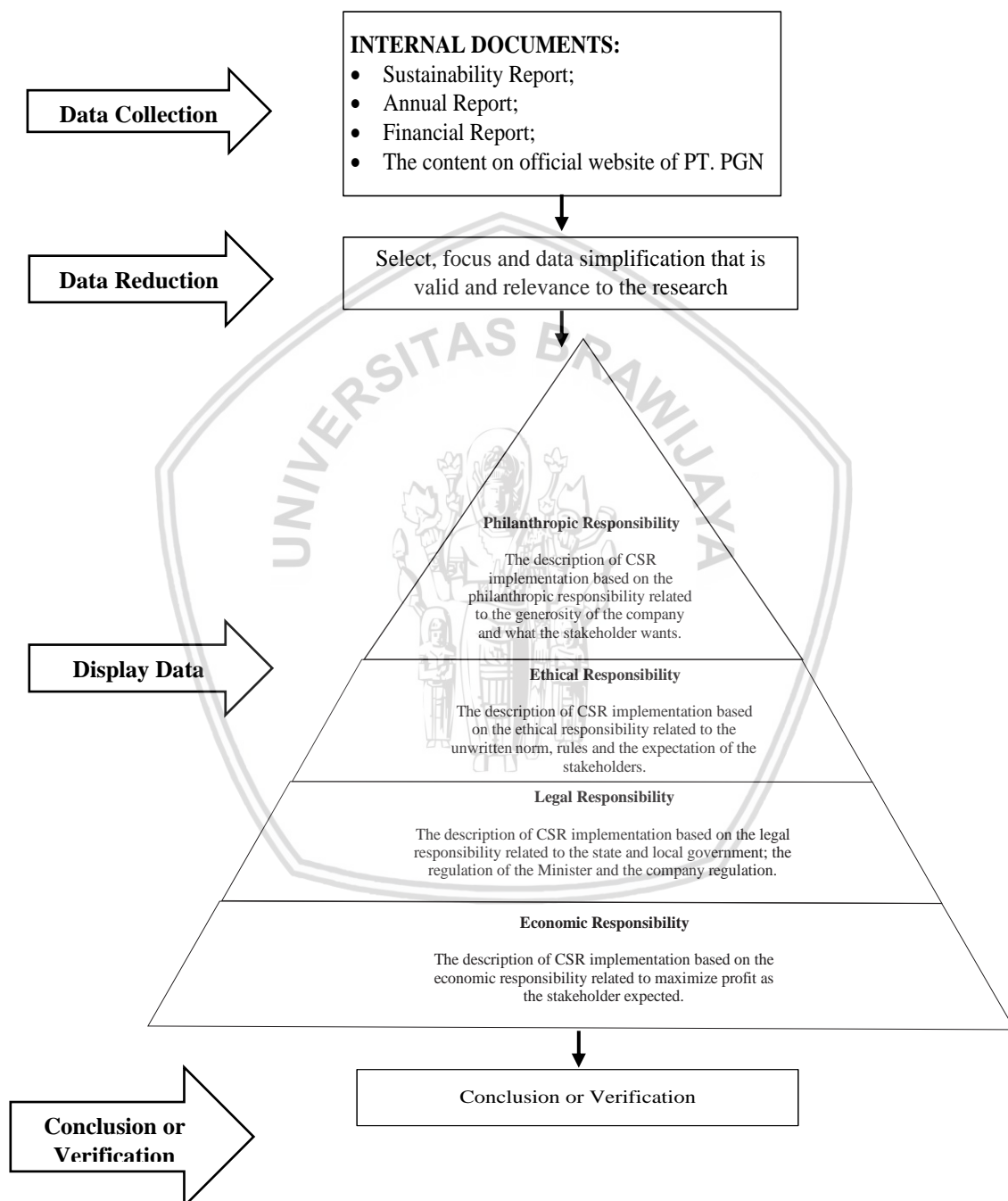
Based on legal responsibilities, the researchers described the implementation of CSR by complying and implementing the laws governed by the state and local government. Moreover, by the legal responsibility, it means that PT. PGN becomes a successful firm that fulfills its legal obligation and at least meets minimal legal regulations

Based on the ethical responsibility, the researchers described the implementation of CSR by relating the company activities in complying the standard, norms and moral. Moreover, by the ethical responsibility PT. PGN become an integrity and ethical company in them activates to achieve corporate goals.

The last level of Carrol's Pyramid is Philanthropic Components. Based on the philanthropic responsibility, the researchers described the implementation of CSR in response to the society's expectancy to be good corporate citizens by giving the human welfare or goodwill such as contribution to the arts, education, humanity program on PT. PGN.



**Figure 3.1**  
***The Flow of Research Method***



The figure 3.1 according to the Miles and Huberman Model. Based on the Miles Huberman (1984) in Sugiyono (2009:430-438) stated that there are three

activities of qualitative data analysis. The first step is data reduction. Data reduction can be interpreted as the selection process, focus and data simplification that is applied. It is needed by choosing the main idea and focus on the idea. Data reduction was tested for its validity and its relevance to the research topic and the theoretical basis used. The researcher took the data based on the CSR implementation that related to the four steps of Carroll pyramid that consist of economic responsibility, legal responsibility, ethical responsibility and philanthropic responsibility.

Then the next step displays the data. In qualitative research, the presentation of data can be complete in the form of brief descriptions, charts, relationships between categories and flowcharts. According to Miles and Huberman (1984) in Sugiyono (2009:434) that the most common of display data for qualitative research data in historical is in the text description. In this step, the researcher displays the data by describing the CSR implementation and the model implementation CSR based on Carroll's Pyramid.

The last step is drawing conclusion or verification. The first conclusions are still tentative but the conclusions will not change if there is no evidence to support the next data collection. The conclusions can be credible if supported by valid and consistent evidence when collecting data. After the researcher can obtain, sort and present the data, the last step is drawing the conclusion from the research result. The conclusion related to the description and the explanation of the implementation and model implementation CSR based on the Carroll's Pyramid.

## CHAPTER IV

### FINDINGS AND DISCUSSION

#### 4.1 PT. Perusahaan Gas Negara (Persero) Tbk. and It's Core Value

##### 4.1.1 The History of PT. Perusahaan Gas Negara (Persero) Tbk.

PT. Perusahaan Gas Negara (Persero) Tbk., in 1859, is a state-owned company that was introduced with named L.J.N. Eindhovern &CO Gravenhage Firm. On May 13, 1965, PGN was well-defined as a State Company and recognized as “Perusahaan Gas Negara” based on the Government Regulation Number 19 Year 1965. Moreover, based on the Government Regulation Number 37 Year 1994, the station of PGN developed into broader corporate scope, specifically other than around of natural gas trading, the company also worked in distribution, where PGN served as the transporter.

The share of PGN have been listed on the Jakarta Stock Exchanges and the Surabaya Stock Exchange on December 15, 2003 with the trading transaction code “PGAS”. In 2008, PGN exercised the split of PGAS shares per value (stock split) with a ratio of 1 (one) share exchanged with 5 (five) shares with a nominal value of Rp100 per share, therefore the number of shares was 22.967,185.964 shares. Since 2007 – 2012 PGN established subsidiary companies including PT. PGAS Telekomunikasi Nusantara, PT. PGAS Solution, PT. Saka Energi Indonesia, PT. Gagas Energi Indonesia and PT. PGN LNG Indonesia.

In accordance with the Government’s obligation, PGN began the construction and management of household natural gas network project in Batam, Surabaya, and

Tarakan. In 2015, PGN was assigned to control the household natural gas network that was built by the Central Government in 11 sections, i.e. among others Jabodetabek, Palembang, and Surabaya. Moreover, PGN had an organization transformation to adjust the company's development and encounter the business competition in oil and gas sector. Together with its subsidiaries and affiliations in the form of ONE PGN, established its stride to the next level towards the world-class company in the gas industry.

#### **4.1.2 Vision, Mission and Core Values of PT. Perusahaan Gas Negara (Persero) Tbk.**

PGN continues to strengthen its groundwork and transform from a natural gas transmission and distribution company into a provider with integrated energy solution that push forward the usage of natural gas for public and industrial needs. The vision of PGN is "To Become the World-Class Energy Company in Gas Business in 2020". While, the Mission of PGN is to increase the company's added value for stakeholders through:

- a. Customer: energy needs fulfillment solution that is safe, value-added, economic, and increase the competitiveness;
- b. Society: the improvement of welfare and sustainable economic growth through energy independence and environmental conservation efforts;
- c. Shareholders/investor: the creation of the optimal sustainable company's values through internal and external synergies.

PGN defines corporate culture through five values shortened as ProCISE and explained through 10 main Corporate Behaviors:

- a. Professionalism (Pro): Competent on field of duty and responsible;
- b. Continuous Improvement (C): Creative and Innovative, as well as adaptive to changes;
- c. Integrity (I): Honest, open-minded, positive thinking, disciplined, and consistent;
- d. Safety (S): Prioritizing on work safety and health, as well as caring for the social and natural environments;
- e. Excellent Service (E): Prioritizing on internal and external subscriber satisfaction, as well as being proactive and responsive.

#### **4.1.3 Line Business of PT. Perusahaan Gas Negara (Persero) Tbk.**

According to the PGN's Articles of Association as lastly revised by the Deed No. 23 dated April 6<sup>th</sup>, 2015, made before Notary Fathiah Helmy, SH., Notary in Jakarta, the business activities of PGN are as follows:

1. Panning, constructing and developing the natural gas downstream business that covers the activities of processing, transportation, storage and commerce;
2. Planning, constructing, developing the artificial gas (hydrocarbons gas) production, supply and distribution;

3. Other than the main business activities, PGN also carries out other supporting business that is directly related and or support the core business activities in accordance with the prevailing laws and regulations.

Moreover, product and services produced by PGN are business of natural transportation, business of natural gas trading that offers an integrated natural gas infrastructure to support natural gas trading. Based on the management interest, PGN categorize its business activities into 4 (four) principal business segments, which are: (1) natural gas transmission business; (2) natural gas trading business, (3) natural gas and oil business; and (4) other business such as telecommunication, services, constructions and maintenance of pipeline networks, building management, and financial lease align with the company's business strategy (SR PGN, 2017).

#### **4.2 Corporate Social Responsibility of PT. Perusahaan Gas Negara (Persero) Tbk.**

PGN is dedicated to participating in the development of welfare and sustainable economic growth through community empowerment and environmental conservation efforts. PGN defined social and environmental responsibility based on the article 1 paragraph 3 and article 74 of Law Number 40 Year 2007 regarding the Limited Liability Company and re-affirmed through Government Regulation Number 47 Year 2012. Moreover, in implementing CSR, PGN stated that CSR is not only charity activities, but more than that, it covers

sustainable apprehensions on the environment, respect for the human rights, responsibilities to provide comfortable office and good work relatives with employee, prioritize the protection of occupational health and safety and participate in educating the local economy and community (AR PGN, 2016).

Moreover, PGN has stabilized its Social and Environmental Responsibility Policy based on the Social Responsibility ISO 26000 to manage the company's operational effect and risk to the community. ISO 26000:2010 is issued by International Standardization Organization (ISO) as an international guidance then implemented by Badan Standarisasi Nasional (BSN) into SNI ISO 26000:2013. The ISO 26000 consist of 7 main subjects, such as: (1) organizational governance; (2) human rights, (3) labor practices, (4) environment, (5) fair operating practices, (6) consumer issues and (7) community involvement and development (AR PGN, 2017).

#### **4.2.1 The Company Contribution to Society Related to Environment**

PGN is dedicated to improving their operational performance value in line with the environmental sustainability. Greenhouse Gases (GHG) is one of the issues that threaten environmental conservation because of the huge carbon emissions. GHGs are the main cause for global warming, that has caused in climate change. In environmental conservation, PGN properly monitor, measure and control emission using the carbon calculator mechanism to the effect of global warming. Therefore, PGN means to deliver company's operational activities in minimizing the negative impacts on the environment (SR PGN, 2016).



PGN business activities directly give effect to the environment. Therefore, PGN regulates their business activities into their program from planning, identification of environmental aspects and impacts, pollution measures, environmental impact monitoring, biodiversity protection programs, maintenance of the equipment and training that will increase environmental awareness and employee participation in environmental sustainability programs (SR PGN, 2017).

PGN discusses 4 main issues regarding to the environment, such as: (a) the pollution prevention; (b) the usage of resources continuously; (c) adaption and mitigation to climate change; and (d) protection to the environment, biodiversity and the restoration of natural habitats recovery. Therefore, PGN's environmental policy will be related to the safety, health, security, environmental, and energy aspects that has implemented in 2016 and 2017 namely Kebijakan Keselamatan Kerja, Pengamanan dan Pengelolaan Lingkungan serta Energi (K3PPLE) (AR PGN, 2016, 2017).

#### **4.2.2 The Company Contribution to Society Related to Labor Practices**

Employment in PGN consists of 5 issues, such as; employment relation, environmental condition, social dialogue, health work safety, and human resource development. The main capital of PGN is the employees; therefore, PGN is dedicated to build a safe and enlightening work environment, support the employees to open their best potentials and encourage the employee's welfare (AR PGN, 2016)

Moreover, PGN gives an equivalent chance to all people, either man or woman, nevertheless of the difference in ethnicity, religion, race, class and gender. Therefore, to encourage the potentials of the employees, PGN also gives an opportunity to all employees to participate in the Training and Education Program from the level executive to the level of management. Employees working performance should be based on the SMART (Specific, Measurable, Achievable, Reasonable and Time-Bound) and become a mandatory to the employee in preparing Individual Development Plan (IDP). The performance evaluation consists of individual working targets (80%), IDP (10%) and culture (10%) (AR PGN, 2017).

PGN provides a welfare package to the PGN people (SR PGN 17). The aim of the welfare package is to assure that PGN can always attract the best talent in improving the talents and competence of human resources to keep commitment to work as best as possible and to develop as a team. The welfare package consists of remuneration and benefit programs. The remunerations programs contain of 3 main items such as; (1) to attract the best talents; (2) to motive the existing employees and (3) to retain the best talents at PGN. Other interesting side from the welfare package is benefit programs that provides such as the health care program, medical security, accident insurance, educational scholarship and so on for the employees and their families (SR PGN, 17).

#### **4.2.3 The Company Contribution to Society Related to Occupational Health and Working Safety**

Occupational Health and Safety (K3) management is a substantial custom in PGN because of the high risk on the business management activities related to the natural gas transmission and distributions business. By implementing the good K3 Management, the chances of occupational accident or health incident can be minimized or even removed. PGN received a certificate with the receipt of OHSAS 18001:2007 which is the international standard of K3, while, SMK3 Certificate from the Department of Labor and Transmigration regarding to the Government Regulation Number 50 Year 2010 (AR PGN, 2017).

PGN has implemented the Occupational Health Program based on the Regulation of the Minister of Labor and Transmigration No: PER.03/MEN/1982 regarding Labor Health Services in creating a healthy work environment to avoid sicknesses due to work. PGN has conducted periodic health checks annually for all workers. The types of health examination are depended on the potential risks at the work place and the result of MCU examination become the consideration in employee placement. Moreover, Electronic Medical Record (e-MR) is a web-based application to collect the health examination that can be checked by the management in real time (AR PGN, 2017).

#### **4.2.4 The Company Contribution to Society Related to Social and Community Development**

Social and Community Development in PGN covers some issues such as creating jobs through the development and variation of economic and technological

development activities. Moreover, company contributes through social investment in the ground of health and produce income for community though local economic development ideas, encourage the quality of education, promotion and conservation culture and art, and encourage or offer health care facilities. The main goal of the PGN social responsibility program is to contribute actively and take initiatives in increasing the community economy through the independence of energy and the conservation of environmental (AR PGN, 2017).

Community Development Program and Social and Environmental Responsibility Program (TJSL) are implemented to increase the quality of community welfare based on the Regulation of Minister of State-Owned Enterprises Number: PER.09/MBU/07/2015 and revised to Regulation of Minister State-Owned Enterprises Number: PER.02/MBU/07/2017 concerning Partnership Program and Community Program of State-Owned Enterprise. Each CSR program should refer to 7 (seven) pillars of PGN CSR, such as: (1) supporting the victims of Natural Disaster; (2) Education Support; (3) Health Improvement Support; (4) Public Facility and Infrastructure Development Support; (5) Worship Facility Support; (6) Nature Conservation Support; and (7) Community Social Support. Those seven pillars are implemented based on the three steps (1) Planning and Preparation of CSR Roadmap and Social and Stakeholder Mapping; (2) Implementation, evaluation, survey, and giving assistance; and (3) periodical report (AR PGN, 2017).

#### **4.2.5 The Company Contribution to Society Related to Product and Consumer**

PGN as an Indonesia's natural gas industry company become progressively competitive and the needs and expectation of customers who changes, therefore, PGN is dedicated to reflecting customer satisfaction to be a form of essential and important service. Prime service has been highly appreciated by the customers. PGN continuously adapt to the changes to maintain the company's improvement to realize and understand that a desired result will be achieved efficiently when activities and related resources are managed as a process (AR PGN, 2016).

Moreover, consumer issues are related to social responsibility and reasonable marketing practices, protection of health and safety, responsible consumption forms, resolution linked to conflict and compensation, protection of consumer data and privacy, contact to required products and services, capability to fulfil needs and groups of defenseless or disadvantage customers. The activities programs are PGN contact center, measurement of customer satisfaction, customer gathering, PGN loves mother, and promotional programs (AR PGN, 2017).

#### **4.3 The Analysis on the Implementation Corporate Social Responsibility of PT. Perusahaan Gas Negara (Persero) Tbk. Based on Carroll's Pyramid**

The Implementation of CSR in this research is referred to the Carroll's Pyramid. The implementation of CSR on PGN is classified into 4 categories of CSR on Carroll's Pyramid, there are economic responsibility, legal responsibility, ethical

responsibility and philanthropic responsibility. The research is conducted based on the annual report, sustainability report, financial performance and the official website of PGN in 2016 and 2017.

#### **4.3.1 The Implementation of Corporate Social Responsibility of PT.**

##### **Perusahaan Gas Negara (Persero) Tbk. on Economic Responsibility**

The implementation of economic responsibility is classified into the company's efforts in maximizing revenue and generating profits such as producing goods and services as well as creating jobs for the interest of stakeholders. This is done so that the company can grow and survive in a strong competitive position. Therefore, the company can operate their business activities efficiency.

CSR programs in PGN included in the category of Economic Responsibility are the management of human resources such as creating jobs. The human resource management discusses employee recruitment, employee training and community empowerment in the process of hiring of employees.

PGN stated that human resource is one of the key stakeholders that effects the company's performance. Employee engagement survey conduct regularly in PGN's effort to gain inputs from its workers regarding work condition such as feedback from the employees. To increase their career development, PGN provides the equal opportunities to the employee in education, promotion, career development and other right stated in the Collective Work Agreement and the related regulation. The employee's soul and sense of responsibility have made PGN group in accordance with the company's aim. The indicators of work comfort and safety are low turnover



rate, absence of employee layoffs, high level of safe working hours and increased employee's quality based on the assessment result.

Employee recruitment conducted by PGN prioritizes the workforce on the operational area therefore, to provide welfare and as a form of PGN contribution in regional development (SR PGN, 2017). In addition, PGN provides trainings to improve the capability of the surrounding communities. Recruitment process in PGN is based on 6 Operational Areas such as:

1. Headquarters/Holding;
2. Business Unit Gas Product;
3. Business Unit Infrastructure Operations;
4. Business Unit Gas Network;
5. Program Management Office;
6. Subsidiary.

PGN's employed 1.339 workers in 2017 all over Indonesia. This number decreased by 11,27% compared to the previous year. The decrease of the employees was mainly due to retirement. There are 98 employees terminated their work status, while the company recruit 10 employees this year. The majority PGN's people placement is on headquarters/holding company with 394 peoples and on subsidiary company with 357 peoples. Meanwhile, the age group ranging from 30 to 50 dominates the workforce in the company, with male PGN workers representing 75,58% of the worker composition. Moreover, on the aspect of competence



structure, mostly workers, 621 peoples, are graduated from the PGN workforce training (SR PGN, 2017).

PGN has three employee quality improvement programs that can meet the company's needs of training and assistance programs, old-age programs and pension and insurance programs. The training programs held in 2017 were Executive Development Program (EDP), Management Development Program (MDP), First-line Leadership Development Program (FLDP). The employee quality improvement programs at PGN is to improve performance and competence of employees that carried out through education and training. PGN organizes Master program abroad at prominent Universities and internships at world-class companies in natural gas sector. In 2017, there were three employees took Master program at some universities in the United States (SR PGN, 2017).

Moreover, PGN's economic performance continues to contribute to the improvement of regional and national economic growth by conducting several business activities. In running the operational activities, PGN has 4 (four) core business segment, namely (1) Transmission/Transportation Business; (2) Distribution/Trade Business Segment; (3) Oil and Gas Business Segment; and (4) Other Business Segment such as telecommunication, LNG, building and equipment management and rental, and financial lease. In 2017, PGN implemented the transformation phase II to optimize the leading energy company with global standard in Indonesia. PGN establish three unit businesses as the effective and strategic active advisor, there are Business Unit Infrastructure (BUI) as administrator of infrastructure, Business Unit Gas Product (BUGP) as administrator

of gas commodity and customer service, and Business Unit Gas Network Services (Jargas) as administrator of infrastructure and gas commodity as well as customer service for internal under government's assignment (AR PGN, 2017).

The business of gas transmission/transportation segment is an activity of transporting shipper's gas from a reception point such as gas field or other source to the off-taker handover point through high pressure transmission pipeline. In 2017, the transmission and transportation segment distributed gas in the amount of 8 MMSCFD from 18 MMSCFD in 2016. It is because of the decreased realization volume of PGN transmission on Muara Tawar Power Plan. Therefore, there was a declining of the revenue of this segment by 69,26% in the amount of Rp33,7billion from Rp108,8 billion in 2016 (AR PGN, 2017).

The distribution/trade business segment is the distribution and selling of natural gas to end users for manufacturing and processing industries, power plants, commercial and households using various modes, both pipelines and non-pipelines. This business segment is managed by PGN and GEI subsidiaries which currently has 19 Sales Area. In 2017, distribution/trade business segment distributed 772 MMSCFD from 803 MMSCFD in 2016. In general, the condition of distribution/trade business segment of natural gas in all operational areas of PGN is caused by economic condition that affect the level of demand for goods in several industrial sectors and after the consumption of natural gas of PGN natural gas customers. Therefore, there was a declining revenue of this segment by 5,32% or Rp32,6 trillion in 2017 compared to Rp34,4 trillion in 2016 because of the gas selling price adjustment to support electricity sector (AR PGN, 2017).

The oil and gas business segment are PGN's business and investment activity in oil and gas upstream which includes exploration, exploitation and business development in the field of oil and gas. This segment managed by SEI as a subsidiary entity that obtains revenue from oil lifting, gas, LPG and LNG. The revenue of oil and gas segment through SEI was Rp6,4 trillion in 2017 that increased 50,54% compared to Rp4,2 trillion in 2016. The increasing of the revenue because of lifting activity in the fully operational Bangkanai PSC and Sanga-sanga PSC as well as Muara Bakau PSC production in 2017. Moreover, there was an increase in the lifting activity in Ketapang PSC and Fasken (Texas) that have been producing since several years ago.

Other business segment is other business directly related to or supporting PGN's core business in accordance with the prevailing Law and regulation through subsidiaries and affiliations. The other business activities are Telecommunications, Pipeline Construction, Operating and Maintenance, LNG, Building and Equipment Management and Rental (PERMATA) and Financial Lease. In 2017, Kalimantan Jawa Gas's (KJG) distribution volume decreased resulting in lower lease revenue (financial lease) of Rp97,3 trillion. Through the PGAS Solution and PERMATA, PGN booked other revenues of Rp277,3 trillion, higher than in 2016. This is due to the increased revenue of gas pipeline construction with Jargas Migas and ENI through PGASSOL, as well as Chiller rental services through PERMATA (AR PGN, 2017).

The distribution of gas as PGN business activities in all operational areas faced many obstacles due to economic conditions in 2017. This impacted the level

of demand for goods in several industrial sectors and to the consumption of natural gas at PGN customers. The followings are PGN's sales conditions during 2017:

1. the high level of competition and threatens to enter the existing market in some region;
2. the competitiveness of PGN gas products that compete with imported products;
3. the stability of oil prices dynamics at the level of USD50/barrel;
4. the efficiency of PLN's electricity generation costs;
5. the high USD exchange rate against IDR, therefore, it caused the import COGS of some industry to increase (AR PGN, 2017).

The decreasing profit earned by PGN happened in 2017, Rp2.002.177.781.000 from Rp4.146.133.495.000 in 2016. Moreover, PGN's Environmental Development Program and Social and Environmental Responsibility Program fund realization sourced from the Company's allocated profit and budget in 2017 which was Rp90.732.562.820 and in 2016 noted at Rp115.006.637.800 (SR PGN, 2017). Based on the company profitability ratio, the percentage of net profit margin of PGN in 2016 and 2017 was 14% and 10% indicating that the ability to earn net profit from sales was lower in 2017. Moreover, on return on assets (11,8% and 13,2%) and return on equity (9,6% and 4,5%) showed the company's ability in generating profit from asset and equity used in funding the company operation and capital (AR PGN, 2017).

#### **4.3.2 The Implementation of Corporate Social Responsibility of PT. Perusahaan Gas Negara (Persero) Tbk. on Legal Responsibility**

The implementation of legal responsibilities is classified into corporate efforts through responsibility to laws governed by the state or local government. In addition, legal responsibility is illustrated by how the company has complied with and implemented the BUMN regulations related to CSR as well as the practice of legal responsibility. PGN has obeyed and implemented various regulations related to CSR so that the company can run well and free from applicable sanctions.

According to Regulation of the Minister SOES No. PER-9/MBU/2012 dated on July 6<sup>th</sup>, 2012 on Amendment to the Regulation of the Minister of SOEs No. PER-01/MBU/2011 dated August 1<sup>st</sup>, 2011 on the Implementation of GCG in State-Owned Enterprises, PGN constantly and improve competitiveness by developing good corporate governance structures and system. Moreover, PGN is committed to the implementation of Good Corporate Governance (GCG) based on the principles of transparency, accountability, responsibility, independency and fairness concerning to the Regulation of Otoritas Jasa Keuangan (OJK) No.21/POJK.04/2015 about Implementation of Public Company Governance Guidelines and Circular Letter of Otoritas Jasa keuangan (OJK) No. 34/SEOJK.04/2015 to implement governance system in the context of sustainability by integrating economic, environmental and social aspects (AR PGN, 2017)

Based on the Board of Director Decision Number 006901.K/OT.01/UT/2012 concerning Guidelines of Good Corporate Governance, the GCG practice in PGN is aimed to: (1) Optimize PGN's values to have strong competitiveness; (2) Drive

PGN's management in professional, efficient, and effective; (3) Drive the company to make decision and take action in high moral values and comply with the law and regulation; (4) Improve PGN's contribution to national economy; (5) improve a conducive climate for national investment development; and (6) improve company's image (AR PGN, 2017).

The implementation of CSR on PGN is to fulfill social responsibility. PGN establishes the Social and Environmental Responsibility Policy based on the internationally applied ISO Responsibility ISO 26000:2010 and subsequently adopted by Badan Standarisasi Nasional (BSN) to SNI ISO 26000: 2013 to manage impact and the risk of operating the company for the surrounding community. By applying ISO 26000 as a form of organizational social responsibility for the impact of its decisions and activities on society and the environment through transparent, accountable and ethical conduct on each program that has been implemented with reference to the regulation (AR PGN, 2017).

PGN managed B3 Waste according to the Government Regulation No. 101 Year 2014 and other laws and regulations concerning B3 waste. In the business activities, reduction at source principle is the most important to minimize the production of waste. PGN produced some the hazardous waste in their business activities as follow, (1) used lubricant oil; (2) used filter; (3) used battery/accu; (3) contaminated used packaging; and (4) contaminated used rag. Hazardous waste management is handled by a third party which is licensed to manage the waste by collecting the waste from PGN's business areas and then manage it outside these



areas. In 2017, PGN succeeded in reducing the hazardous waste to 12,0630 ton while in 2016, the hazardous wastes produced were 16,56641 ton (SR PGN 2017).

PGN runs the ISO 9001 Quality Management System as an internationally recognized tool for quality assurance of a product or service that has been produced. Based on the ISO 9001:2008, before entering into a binding contract with a gas supplier, PGN conducts an examination on the supplier's gas availability, capability of production equipment and gas quality. PGN conducts quality control on certain amount of gas being supplied and notify the customer immediately if there is changes then contact the customer to give an option to do any action in safeguarding their production continuity. Moreover, to maintain the quality and pressure of the gas in the transmission pipeline, PGN installed filters and scrubbers in the offtake station and filters at the customer's meter. Therefore, it can eliminate customers complains related to the damage from quality or pressure of gas flowing by reducing the dust particles, condensate and other non-gas particles (SR PGN, 2017).

The Occupational Health and Safety (OHS) management in the company is a substantial thing due to its high risk of the business's activities, therefore, PGN obtained the certification of Occupational Safety and Health Management System (SMK3) from the Department of Labor and Transmigration regarding to Government Regulation Number 50 Year 2010. Moreover, PGN also achieved a certification of OHSAS (Occupational Health and Safety Assessment) 1800:2007 certificate which is the international standard of OHS management system. PGN has consistently implemented the regulation in management of oil and gas work safety Sinergy culture (Safety, Integrity, Professionalism, Excellent Service,



Reliable, Growth, and Accountability). In general, the OHS implementation and management based on Law No. 1 year 1970 about Occupational Safety and No. 13 year 2003 on Manpower, Article 82 point 2 which is stated company's responsibility in completing occupational health and safety measures for its workers (SR PGN, 2017).

The good occupational health and safety based on PGN means (1) enhanced employee and their family welfare; (2) lower cost for compensating accident; (3) lower recovery cost; (4) lower prevention cost compared to mitigation of work accident; and (5) maintaining the good image of the company extensively. Moreover, the OHS regulation at PGN emphasizes the implementation of OHS system in every activity, especially the Plan, Do, Check and Action principles. Furthermore, PGN established the Executive Central Safety Committee (ECSC) at the Board of Directors level and the Central Safety Committee (CSC) at both corporate level and the Business Unit and Project level, as well as Subsidiary (SR PGN, 2017). Safety matric is the performance indicator of each Work Unit in OHS management and implementation, therefore, PGN monitors, evaluates, and determines the steps to improve the monthly achievement of OHS performance (AR PGN, 2017).

PGN's environmental regulation is an element of a unified policy that addresses the aspects of safety, health, security and environment referred to the Occupational Health and Safety, Security Environment and Energy Policy. The environmental work program is under the responsibility of Health, Safety, Security and Environment (HSSE) Division. Therefore, the Environmental management

refers to the ISO 14001 Environmental Management System, which has been certified since 2016. Regularly, PGN recognizes significant environmental aspects and effects, recognizes the regulations and evaluates PGN's compliance with such regulations, determines its environmental goals and objectives and conducts internal as well as external audit into the Environmental Management System's implementation (SR PGN, 2017).

Air quality monitoring is carried out on the chimney from the combustion sources of gas turbines, gas engine generators (GEG) and diesel engine generators (DEG). This monitoring is conducted periodically based on the Environment Minister Regulation No.13/2009 on Emission Quality Standards from Stationary Sources for Oil and Natural Gas Business and/or Activities and the Regulation of South Sumatra Governor Number 6/2012 on Benchmark of Immobile Energy Emission and Threshold of Motor Vehicle Exhaust Gas Emission. In 2017, based on the result of Carbon Calculator, the carbon emission produced in PGN's business activity was noted at 87.099,24 tons of CO<sub>2</sub>, increased by 38,1% compared to the previous year. According to the regulation, the air emission, Sulfur dioxide (SO<sub>2</sub>), Nitrogen dioxide (NO<sub>2</sub>) and Total Particulate at PGN was in accordance with the quality standard in 2016 and 2017 (SR PGN, 2017).

Based on the programs that have been implemented by the company as a commitment to implementing good corporate governance standards, PGN realizes that running a business should refer to the applicable law regulators such as BUMN regulations and government regulations as well as to support the effectiveness of all business activities. However, the occupational health and safety (OHS) in 2017

PGN experienced an increase in accident rate with a total of 66 incidents while in 2016 PGN get predicate ZERO Accident that is not an accident (SR PGN, 2017).

PGN, as a state-owned company engaged in natural gas transportation and distribution, has carried out the mandate of the State Minister for State Enterprises No. PER-05 / MBU / 2007 concerning Partnership Program of State-Owned Enterprises with Small Business and Community Development as Amended by the Regulation of the Minister of State-Owned Enterprises No. PER-20 / MBU / 2012. In 2016 and 2017, PGN was free from any penalties related to legal violations and the company is also free from complaints from its customers. Therefore, the corporate awareness in legal responsiveness also makes the surrounding community gain benefits that can be felt through the maintenance of a good environment.

#### **4.3.3 The Implementation of Corporate Social Responsibility of PT. Perusahaan Gas Negara (Persero) Tbk. on Ethical Responsibility**

Implementation of CSR with ethical responsibilities can be related to corporate ethical responsibilities such as following the unwritten norms, rules and expectations of stakeholders. PGN adopts strong ethical standards and work culture in interacting with stakeholders, this can be illustrated by social responsibility activities that have been adhered to and conducted by the company in accordance with the ethical stance in the community. PGN believes that the ethics and work culture instilled to employees is a strong motivation in realizing employees with dignity and high integrity to develop the company in the long term. Moreover, PGN realized that they deliver economic contribution the stakeholders which comprise:

the state, investors, employees, consumers, suppliers and the community (SR PGN, 2017).

PGN's guidelines for business ethics and work morality as a form of commitment in implementing the company's cultural values is ProCise culture, consisting of five core values: Professionalism, Continuous Improvement, Integrity, Safety, and Excellent Service into the behavioral interpretation. The Code of Business Ethics and Work Ethics, which have been set by the Board of Directors Decree No. 002600.K/HK.00.01/UT/2013 dated January 25, 2013 regarding to the Code of Business Ethics and Work Ethics. This code of business ethics and work ethics should apply to the company relation, such as, the employee, customers, providers of goods and services, company creditors, the government, the society, shareholders and suppliers (AR PGN, 2017).

Community empowerment and environmental preservation are important factors in conducting PGN's business continuity. with this, PGN can play an active role and take the initiative in improving the people's economy through energy independence and environmental conservation efforts by creating jobs, implementing training and education programs, and helping through corporate social responsibility activities. PGN's CSR programs consists of Community Development Program and Social and Environmental Responsibility Program (TJSL). There are two factors related to implementation CSR program both from internal side or from the Ministry of State-Owned Enterprise. From the internal ide, PGN issued a policy to temporarily discontinuing Partnership Program to reduce the potential trouble in receivables in funding the program. Moreover, on the

external side, PGN implemented the policy of PKBL from the Ministry of State-Owned Enterprises on Regulation of Minister of State-Owned Enterprises Number Per-02/MBU/7/2017 dated on July 5<sup>th</sup>, 2017 about Second amendment of Regulation of Minister State-Owned Enterprises Number Per-09/MBU/07/2015 on Partnership Program and Community Development Program of State-Owned Enterprises (AR PGN, 2017).

Territorial coaching, Village-Owned Enterprise (BUMDes) is one of the company's programs on community development in the company's area of operations in poverty alleviation. There are four areas of operation of the company, among others (1) Sriminosari Village, Lampung, (2) Teluk Terate Village, Banten, (3) Pagardewa Village, Muara Enim – Sumatera Selatan and (4) Tembesi, Panaran – Batam (SR PGN, 2017). BUMDes covers three activities as follows:

1. Institutional preparation, comprising workshop, office lease and office equipment procurement, grant, training, social entrepreneurship, business management, VOE legality administration and management comparative study;
2. The Business Unit Support program including workforce service business unit, LKMS business unit, agribusiness business unit, and tent lease business unit;
3. The Healthy Village Development program, including realizing healthy and clean residential environment, empowering healthcare center (posyandu), operational training of ambulance and forming waste bank as well as garbage disposal vehicles.

PGN's ethical responsibility also refer to the customers based on each business activities in fulfilling the customers expectation. Therefore, PGN should keep the customer satisfaction to plan for the strategic decisions. The following programs for the customers based on ethical responsibility as follows:

1. PGN Contact Center and Customer Gathering are PGN's services for the customers and society to get various information and submit complaints and questions concerning PGN's products and services. Moreover, company and customers can communicate effectively by providing updated information, market education and establish a tighter sense of family;
2. The information dissemination on premium customer gas subscription;
3. The information dissemination on at the Investor Gathering Krakatau Industrial Estate Cilegon;
4. The information dissemination on new sources of gas for East Java customers (AR PGN, 2017).

PGN stated that the employees are the important wealth for PGN, therefore, PGN is committed to create a safe and enlightening work environment, support the employees to get their best capacities and recover the employee's welfare. Moreover, PGN implement the ethical responsibility to their employee such as, in employee recruitment, PGN gives an equal opportunity to all people, either man or woman, excluding difference of ethnicity, religion, race, class, gender, or physical condition to contribute in PGN employee recruitment program. The result is based on the selection result, evaluation result during probation and orientation of the



employee concerned. The same opportunity is also given to the employee by PGN to contribute in the Training and Education weather inhouse and public training (AR PGN, 2017).

The health and safety of the employee is a substantial matter in PGN because of the high risk on business management activities. In order to guarantee the ability to work and the identification of illnesses due to work or other common illness, PGN managed the health examination using web-based application named Electronic Medical Record (e-MR). Moreover, PGN also gives some programs to the society such as Blood Donation event for PGN employee and education for the employee concerning the health and safety while working, such as Wellness Program and Health Risk Management. However, the accident happened in 2017 was more than in 2016 with 66 accidents (SR PGN 2017).

PGN is committed to enhancing shareholder value in accordance with the provisions of the law. The ethical behaviors in dealing with shareholders include:

1. Providing fair treatment to shareholder and investors in accordance with the amount and type of shares owned in order to use their right relating to Company's articles of association and the prevailing laws and regulation;
2. Providing information to shareholder in a complete, accurate, timely, and accessible way according to the previsions of the law conducted through a one door policy;



3. Every investor and shareholder must obey with the Company's Articles of Association and all decisions taken legally in the GMS (AR PGN, 2017).

PGN as one of the SOEs plays an active role in the national economic development process by improving the company's performance based on GCG principles. As a manifestation of business success and accountability of the company, PGN always pays attention to stakeholders' interest in accordance with the laws and business ethics. Therefore, PGN increase the value added of the company as the part of Shareholder's responsibility by having a good relationship to the customers, society and shareholder or investor.

#### **4.3.4 The Implementation of Corporate Social Responsibility of PT.**

##### **Perusahaan Gas Negara (Persero) Tbk. on Philanthropic Responsibility**

The implementation of philanthropy responsibility in CSR's activities at PGN are in response to society's expectancy of what benefits do businesses delivers to corporate citizens (Carroll, 2991). Philanthropy responsibility is related to the main activities that consists of the human welfare or goodwill, such the arts and education for the community. The company contributes their money, facilities and employees time to humanitarian programs.

PGN continuously developing some CSR activities to empowering the economic potential of the community such as improving the welfare of society in a sustainable way. PGN tried to drive community's economy in all the operational

zones and their surrounding zones through the Community Development program to decline the economic gap in economy development. Actually, PGN did the same main program in 2016 and 2017, there were some programs related to the philanthropic responsibility such as: (1) natural disaster assistance; (2) educational and/or training support; (3) medical facility support; (4) infrastructure development and/or public facility support; (4) worship place support; (5) nature conservation support; and (6) social community support for poverty alleviation (SR PGN, 2017).

There is some natural disaster in Indonesia, therefore, PGN care and empathy to those who suffered from disaster by providing an assistance. In 2016, The company provide public kitchen and health services on some victims such as landslide victims and earthquake victims and Indonesia Disaster Emergency Rescue Equipment for flood victims in West Java. Moreover, in 2017, provide Clean Water Supply Programs in Gunung Kidul area. The routine programs in every victim in Indonesia is PGN continuously provide food package and health services.

In educational and/or training, PGN continuously provides some programs such as giving some scholarship to college students in Indonesia, sending young teachers into the Elementary School Mentoring Program, PGN Innovation Camp program and The Students Know the Country Program. In 2016, the company provided some Development of School Reading Park by distributing of PGN comic book the Country's Legend series, National Heroes and Successful People Biography to the communities surrounding the PGN's operational areas. To increase the society's skill, PGN provided training and development for weaving artisan communities in Garut. Moreover, in 2017, PGN provided support in

laboratory procurement and establishing a library room by Book Printing Program the Biography of Successful People (BOS) (AR PGN 2017).

On health sector, PGN has carryout a Public Health Service Program for mother and children checkup as a routine program in the operational areas. In 2016, PGN provided 19 ambulance unit and 1 hearse for the people in some region and Lebaran Homecoming Health post that covers health services, distribution of health supplement and entertainment facilities. In 2017, different from the last year program, PGN provided Public Bathing Washing and Toilet Facility for sanitation in Indragiri Hulu Village (AR PGN, 2017).

Infrastructure development and/or public facility support sector, PGN has undertaken the same program in 2016 and 2017 that is building facilities and infrastructure for the provision of clean water, the construction of bridges and Veterans home fixing which is the BUMN Program Present for the State). In 2016, PGN provides public facilities for the development of arboretum in the form of green proper which is a follow-up program from 2015. In addition, PGN provided road repair and development assistance of 400 MCKs in 8 districts in West Nusa Tenggara. while, in 2017, PGN undertook two different activities from the previous year of development, mentoring and management of the Village Economic Bale (Balkondes) and the revitalization of Tasikardi site (AR PGN, 2017).

In 2016 and 2017, on Worship Place Support, PGN conducted the same activities to support the worship place. The company activities as follows:

1. Supporting the establishment and renovation of worship places and religious support facility;
2. Supporting religious events such as donation for orphans, the poor, and religious support event related to religious holiday;
3. Animal donation for Ied Al-Adha 1437 H and 1438 H. The target donation of the programs is in PGN's operational areas (SR PGN, 2017).

PGN always pay attention to the environment, therefore, the company implement the program that is Nature Conservation Support. Every year, PGN is always doing reforestation in the company operation's area with various activities that is, planting program 96,314 various kinds of plants, rehabilitation program of watershed and mangrove planting program. Arboretum Commission program has been implemented in 2016 and successfully finish in 2017 for Pagar Dewa Station and Taman Keanekaragaman Hayati in Beegung Waterfall Tourism Area Muara Enim Regency, South Sumatra in partnership with PKSPL IPB. In 2016, PGN develop of green open space in Cikuasa Grogol, Cilegon, while, in 2017, the company did Amphitheatre building program in RPTRA Warakas, Tanjung Priok, North Jakarta (AR PGN, 2017).

Social Community Support for Poverty Alleviation sector, PGN has different program implemented in 2016 and 2017. In 2016, PGN held training activities for community empowerment as follows:

1. Training and support community development of woven craftsmen in Garut;

2. Mentoring program of assisted village in Panaran, Pagarewa, Labuhan Maringgai and Bojonegara Stations;
3. Product branding training program for PGN's development Partners;
4. Holding makeup training for 22 ex-inmates in Mataram, NTB;
5. Mentoring assistance to 20 ex-national athletes in the form of entrepreneurship training in NTB.

Moreover, other programs were the provision of 14.000 good packages to people in Riau, Banten, Jakarta, west Java, East Java and NTB, Assistance on development daycare in markets in Mataram, and electricity facilities in the household electrification programs for 800 poor household in 8 districts in NTB. While in 2017, PGN only established four village developments in operational areas of the company, training and development assistance for weaver's community in Garut and assisted some villages as the same in 2016 (AR PGN, 2017).

The different program between in 2016 and 2017 is assistance on education, training, internship, marketing, promotion, and other assistances that related to the capacity improvement efforts for development partners of partnership program. PGN provided some following assistance: (1) development partners participation at 2016 IFEX JIEXPO Kemayoran and (2) development partners participation at 2016 Inacraft Exxhibition. While, in 2017, as the transformation of the regulation, PGN issued a policy to suspend lending the Partnership Program (SR PGN, 2017).

Based on the PGN's Sustainability Reporting in 2016 and 2017, the company must gain the high income and split the income into some program including CSR

Program to increase the society welfare. There is the limitation program in PGN CSR to determine which areas to be granted philanthropic assistance without expecting rewards. Moreover, in fulfilling the last stage of the Carroll Pyramid, Philanthropic Responsibility, PGN provides support to stakeholders through the programs for the surrounding communities. However, PGN prioritizes the surrounding community compared to its own stakeholders as well as employees. Therefore, there must be a balance between internal and external stakeholders in running the business activities which is in philanthropic responsibility of the company.

#### **4.4 The Model of Implementation Corporate Social Responsibility of PT.**

##### **Perusahaan Gas Negara (Persero) Tbk. Based on Carroll's Pyramid**

CSR programs implemented by PGN are based on services and products that are environmentally friendly with environmental sustainability around the company. PGN has carried out all the social responsibility activities that must be faced by the company in CSR performance to achieve stakeholder and community demands. Thus, all company activities are not only based on increasing the company's profit financially, but building an institutionalized and sustainable socio-economy.

Based on Carroll (1991), there are four categories of responsibility formed in a pyramid starting from economic responsibility, legal responsibility, ethical responsibility and philanthropic responsibility. CSR allows the company to



improve its competitive advantage and make win-win relationship with its stakeholders such as to gain from cost and risk lessening and legitimacy and reputation benefits (Carroll and Shabana, 2010). Therefore, CSR can be effective to improve stakeholder relation and improving social welfare to demonstrate a convergence between economic and social goals.

One of the strategic factors for the company is the legitimacy of the community that can develop the company. In this case, the company continuously carries out its operations in accordance with the limits and norms of the community. Therefore, that it can be accepted by third party. Legitimacy provides benefits for the company in the long run which is oriented towards alignments with individuals, society and government. If the company gets a positive image from the community, it is expected to be able to increase the company's profit, therefore it can increase the value of the company.

On each level of the Carroll pyramid shows the responsibilities faced by the company in carrying out CSR activities to achieve the demands of the community. McWilliams and Siegel (2001) stated that in to fulfil the demands of stakeholder groups, the company makes policies and operations activities that aim to fulfill its responsibilities. Moreover, The Carroll Pyramid does not only increase the value of the company in financial terms, but also pays attention to social and environmental matters because the financial condition is not enough to guarantee the company's value to grow sustainably.

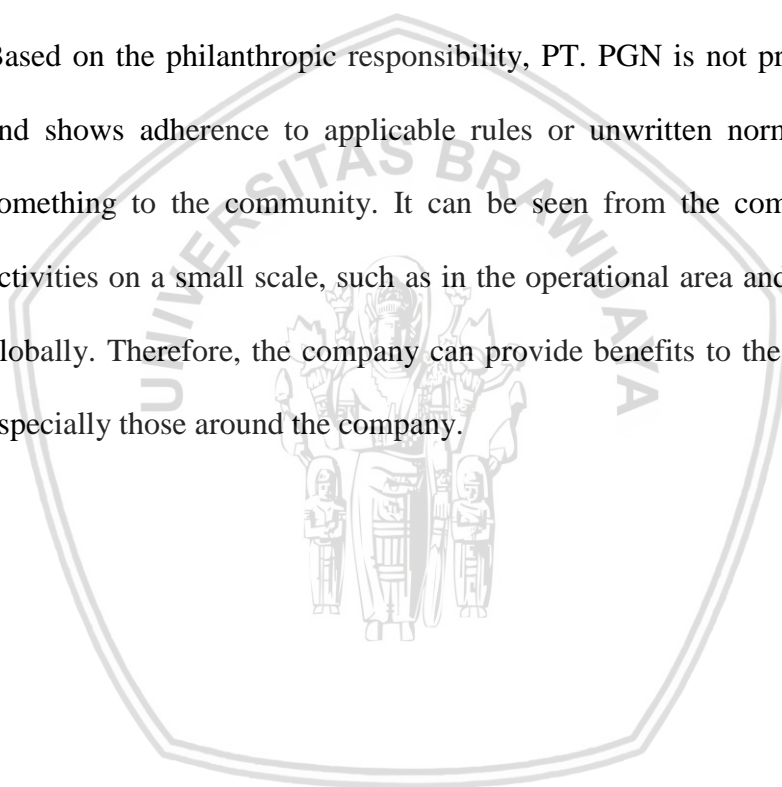


According to Carrol (2004), there is relationship between the activities of the company especially CSR with stakeholders in the company. The stakeholders in this case business' major stakeholders that include consumers, employees, owners, the community, government, competitors and the natural environmental. Based on stakeholder theory, the corporate social responsibility demands to consider all the interests of various parties affected by the implementation of CSR.

Based on the previous discussion, the researcher can describe the CSR activities and the model of CSR implementation on PT. PGN based on Carroll Pyramid as follows:

1. Based on the economic responsibility, PT. PGN forms responsibility in the economic field by prioritizing to gain profits and do what is required by stakeholders in gaining profit. Furthermore, the company can allocate these benefits to CSR activities to realize the demands of the community in accordance with existing regulations. Then, it will lead the company to started legal responsibility state.
2. Based on the legal responsibility, PT. PGN follows what is required by stakeholders because by complying with the regulations of the state and local government, therefore the company can still develop in its operational area because prioritizing profit is not enough for the existence of the company. Moreover, by fulfilling economic responsibility and legal responsibility, companies can carry out the next stage which is better and broader with ethical responsibility.

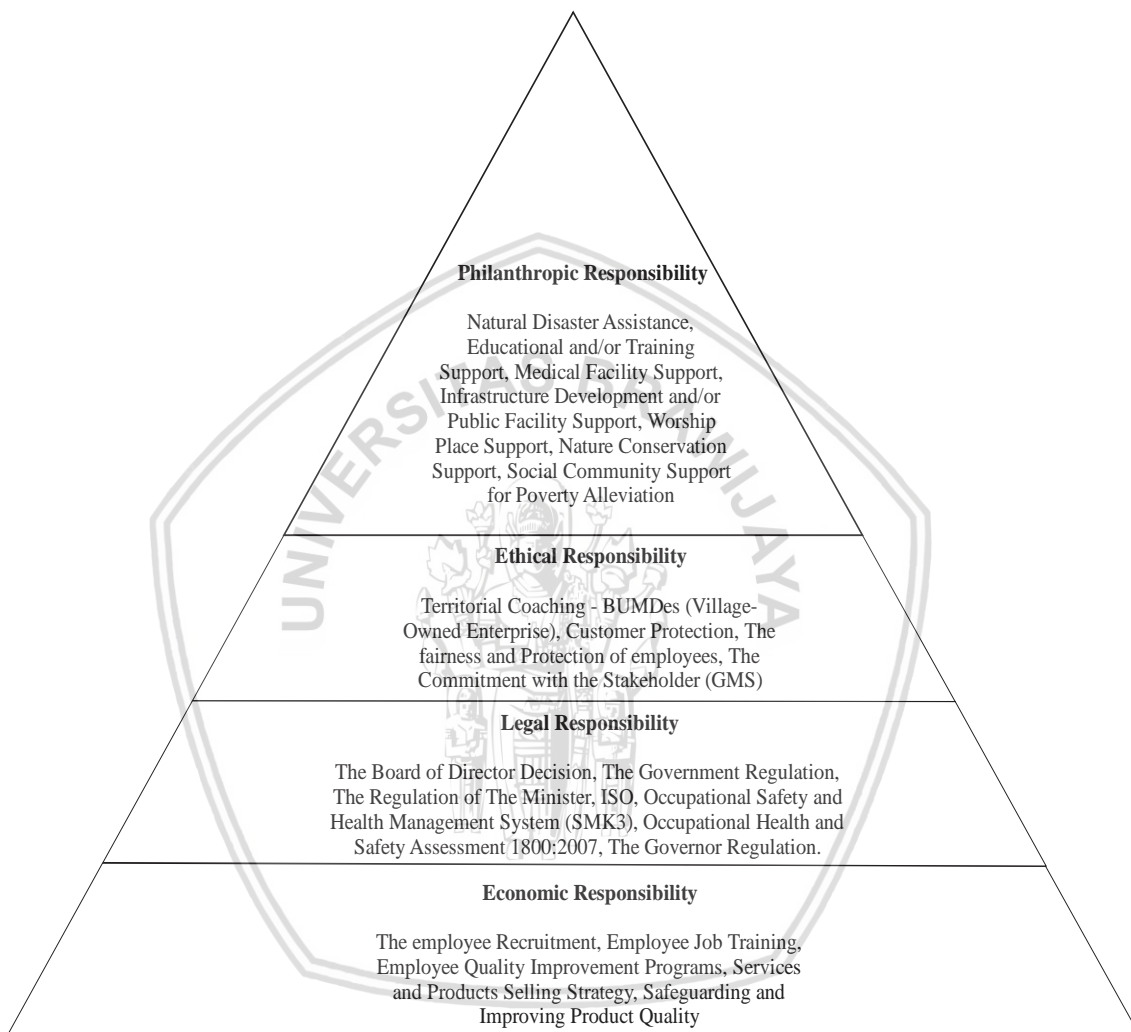
3. Based on ethical responsibility, PT. PGN carries out CSR activities by following unwritten norms, rules and paying attention to what is expected by stakeholders. The company carries out its business activities in accordance with the code of ethics that has been issued to create social and environmental concern. On the next stage, the company can carry out the stage which is the peak of the pyramid, namely philanthropic responsibility.
4. Based on the philanthropic responsibility, PT. PGN is not profit oriented and shows adherence to applicable rules or unwritten norms but gives something to the community. It can be seen from the company's CSR activities on a small scale, such as in the operational area and large scale, globally. Therefore, the company can provide benefits to the community, especially those around the company.



**Figure 4.1**

*The Model of Implementation CSR Based on Carroll's Pyramid on PT.*

***Perusahaan Gas Negara***



## CHAPTER V

### CONCLUSIONS AND SUGGESTIONS

#### 5.1 Conclusions

Based on the results of the analysis and evaluation of the implementation of CSR at PT. PGN, the company implements the CSR implementation model in accordance with the Carroll Pyramid. PT. PGN prioritizes obtaining profits and doing what is expected by stakeholders to make a profit. This is in accordance with the stage of economic responsibility which is a foundation of the establishment of the company. Furthermore, the company fulfills the responsibility for compliance with the laws that apply in the state and local government.

In the next stage, legal responsibility, the company is required to comply with the laws and regulations in the country and local area such as the Government Regulation, the Governor Regulation, the regulation of Minister. PT. PGN has carried out CSR activities based on applicable law so that it is free from sanctions and fines. Therefore, the company can run its operations properly and safely and can develop in the region. PT. PGN must increase its responsibilities again by ethical responsibility.

Based on ethical responsibility stages, PT. PGN conducts its business activities in accordance with the unwritten norms, regulation and what is expected by stakeholders, namely customers, society, shareholders or investors. Therefore, the company can provide benefits to the community and other stakeholders. The

company fulfills this stage so that it can proceed to the next stage, namely the peak of the Carroll Pyramid, philanthropic responsibility.

Philanthropic responsibility is the finale of the Carroll Pyramid at this stage, not all companies can do it because the company is no longer oriented to profit and compliance with regulations both written and unwritten but the company successfully gives something to stakeholders with generosity without expecting rewards. With the implementation of this stage, PT. PGN can carry out its CSR activities very well and can develop its company.

PT. PGN has fulfilled the CSR concept based on the Carroll Pyramid in terms of economic responsibility by gaining profit (make profit), in terms of legal responsibility by obeying the rules (obey the law), in terms of ethical responsibility by paying attention to ethics (be ethical) and philanthropic responsibility by being a good company (be a good corporate citizen).

## **5.2 Research Limitations**

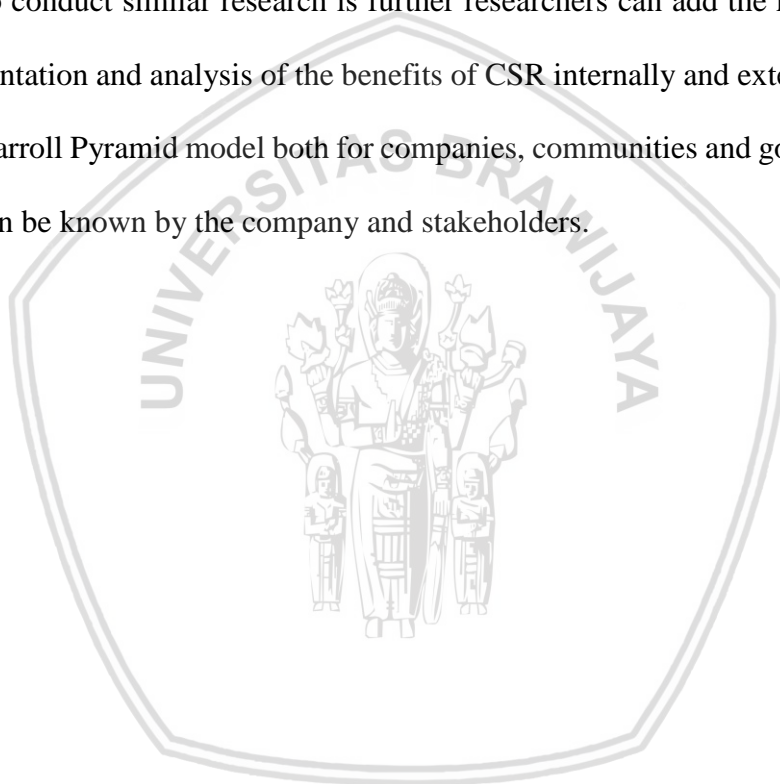
There are several limitations in the research, as follows:

1. This research does not describe in detail the CSR activities carried out by PT. PGN, because the data obtained by researchers is limited based on the annual report, sustainability report and online media written on the website of PT. PGN with very limited explanation.

2. This qualitative research is subjective, which is based on an analysis of the results of the data obtained from the point of view of the author and supporting theories.

### 5.3 Suggestions

There suggestions related to this research toward be conveyed to those who intend to conduct similar research is further researchers can add the results of the implementation and analysis of the benefits of CSR internally and externally based on the Carroll Pyramid model both for companies, communities and government so that it can be known by the company and stakeholders.



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